VXL CAPITAL LIMITED
卓越金融有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2013

The board of directors (the "Board") of VXL Capital Limited (the "Company") presents the consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2013 ("FY 2013") together with the comparative figures for the year ended 31 March 2012 ("FY 2012") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2013

	Note	**2013** *HK$'000*	2012 *HK$'000*
Turnover	*2*	**6,627**	6,436
Other gain	*3*	**1,619**	32,384
Revaluation gain on investment properties	*10*	**4,085**	979
Staff costs	*4*	**(11,860)**	(8,033)
Depreciation and amortization		**(7,548)**	(7,291)
Other operating expenses, net		**(14,100)**	(28,348)
Operating loss	*5*	**(21,177)**	(3,873)
Finance income		**458**	383
Finance costs		**(46,636)**	(48,583)
Loss before taxation		**(67,355)**	(52,073)
Taxation charge	*6*	**(5,172)**	(345)
Loss for the year		**(72,527)**	(52,418)
Other comprehensive income:			
Movement in financial assets available for sale		**–**	(521)
Currency translation differences		**809**	14,404
Property revaluation gain		**6,968**	12,025
Other comprehensive income for the year, net of tax		**7,777**	25,908
Total comprehensive loss for the year		**(64,750)**	(26,510)

	Note	2013 HK$'000	2012 HK$'000
Loss for the year attributable to			
Owners of the Company		**(70,799)**	(52,418)
Non-controlling interest		**(1,728)**	–
		(72,527)	(52,418)
Total comprehensive loss for the year attributable to			
Owners of the Company		**(63,231)**	(26,510)
Non-controlling interest		**(1,519)**	–
		(64,750)	(26,510)
Basic and diluted loss per ordinary share for loss for the year attributable to equity holders of the Company	*7*	**HK (4.63) cents**	HK (3.43) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	8	**203,842**	246,217
Land use rights	9	**51,322**	66,909
Investment properties	10	**128,405**	93,758
Construction in progress		**6,367**	4,468
Available-for-sale financial assets		**1,128**	1,128
Receivables, prepayments and deposits	11	**7,243**	51,097
		398,307	463,577
Current assets			
Assets held for sale	12	**87,901**	–
Receivables, prepayments and deposits	11	**4,411**	21,409
Bank balances and cash		**90,806**	125,059
		183,118	146,468
Current liabilities			
Payables and accruals	13	**107,347**	64,364
Liability component of compound financial instrument	14	**–**	25,635
Liabilities classified as held for sale	12	**749**	–
Borrowings	15	**448,383**	441,696
		556,479	531,695
Net current liabilities		**(373,361)**	(385,227)
Total assets less current liabilities		**24,946**	78,350
Non-current liabilities			
Deferred income tax liabilities		**19,803**	8,457
		19,803	8,457
Net assets		**5,143**	69,893
EQUITY			
Share capital		**15,296**	15,296
Reserves		**(98,528)**	(68,767)
Total shareholders' deficit		**(83,232)**	(53,471)
Non-controlling interest	14	**88,375**	123,364
Total equity		**5,143**	69,893

NOTES:

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and available-for-sale financial assets. These financial statements are presented in Hong Kong Dollar thousands, unless otherwise stated.

At 31 March 2013, the Group had net current liabilities of HK$373.4 million and a shareholders' deficit of HK$83.2 million. In addition, during the year ended 31 March 2013, the Group reported a loss of HK$72.5 million and a net operating cash outflow of HK$14.9 million. The above conditions indicate the existence of uncertainties which may cast doubt on the Group's ability to continue as a going concern. Notwithstanding the above, the consolidated financial statements are prepared on a going concern basis.

In order to alleviate the Group's liquidity risk, management is implementing various measures to improve its cash flows. The Group maintained its strategies of developing its properties into hotels or commercial offices for leasing or sales, or, when appropriate, outright sale to improve its liquidity. During the year, the Group has entered into agreements for the disposals of hotel properties located in the cities of Wafangdian and Tu Lu Fan for a consideration of RMB38.1 million (equivalent to approximately HK$47.2 million) and RMB16.1 million (equivalent to approximately HK$19.9 million) respectively. As at 31 March 2013, deposits of RMB46.2 million (equivalent to approximately HK$57.3 million) were received in connection with these disposals. Residual balance of RMB8.0 million (equivalent to approximately HK$9.8 million) is expected to be received in the coming year when the disposals are completed. On 31 May 2013, "U" Inns & Hotels Investment Limited（你的客棧酒店有限公司）("UIHIL"), a subsidiary of the Company, entered into two Equity Transfer Agreements with two independent third parties to sell 100% equity interest of "U" Inns & Hotels (Xiang Fan) Management Co., Limited（你的客棧（襄樊）酒店管理有限公司）("Xiangfan") and "U" Inns & Hotels (Bu Er Jin) Management Co., Limited（你的客棧酒店管理（布爾津縣）有限公司）("Bu Er Jin") for the consideration of RMB24.9 million (equivalent to approximately HK$31.4 million) and RMB9.3 million (equivalent to approximately HK$11.7 million) respectively. Deposits of RMB27.6 million (equivalent to approximately HK$34.7 million) were received in connection with these disposals on the date of the Equity Transfer Agreements.

As at 31 March 2013, the Group had amounts due to VXLCPL, the ultimate holding company totalling HK$448.4 million. In May 2013, management has obtained agreements from VXLCPL, who agreed to extend the repayment of the above borrowings to 30 September 2014. Based on the Group's cash flow projection and taking into account the reasonably possible changes in the trading performance, the directors believe that the Group will have sufficient cash flows to meet its financial obligations as and when they fall due within the next twelve months from the date of the consolidated statement of financial position. Moreover, VXLCPL has confirmed its intention to provide continuous 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 businesses for the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group. The Group has adopted the new and revised HKFRSs below, which are relevant to its operations, in the preparation of the consolidated financial statements.

(a) Change in accounting policy

In December 2010, the HKICPA amended HKAS 12 "Income taxes" to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale.

The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted. The Group has adopted this amendment in current year and the directors consider the Group's investment properties are recovered entirely by sale. This amendment has no significant impact on the Group's consolidated financial statements.

There are no other amended standards or interpretations that are effective for the first time for the accounting period beginning on or after 1 April 2012 that would be expected to have a material impact on the Group.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 April 2013 or later periods, have not been early adopted by the Company:

HKFRS 1 (Amendment)	Government Loans (effective for annual period beginning on or after 1 January 2013)
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual period beginning on or after 1 January 2013)
HKFRS 9 (Amendments)	Financial Instruments (effective for annual period beginning on or after 1 January 2015)
HKFRS 10	Consolidated Financial Statements (effective for annual period beginning on or after 1 January 2013)
HKFRS 11	Joint Arrangements (effective for annual period beginning on or after 1 January 2013)

HKFRS 12	Disclosure of Interests in Other Entities (effective for annual period beginning on or after 1 January 2013)
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective for annual period beginning on or after 1 January 2013)
HKFRS 10, HKFRS 12 and HKAS 27 (Revised 2011) (Amendment)	Investment Entities (effective for annual period beginning on or after 1 January 2013)
HKFRS 13	Fair value measurement (effective for annual period beginning on or after 1 January 2013)
HKAS 1 (Amendment)	Presentation of items of other comprehensive income (effective for annual period beginning on or after 1 July 2012)
HKAS 19 (Amendment)	Employee Benefits (effective for annual period beginning on or after 1 January 2013)
HKAS 27 (Revised 2011)	Separate Financial Statements (effective for annual period beginning on or after 1 January 2013)
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2013)
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities (effective for annual period beginning on or after 1 January 2014)
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine (effective for annual period beginning on or after 1 January 2013)
Annual Improvements Project	Annual Improvements 2009-2011 Cycle (effective for annual period beginning on or after 1 January 2013)

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on consolidated financial statements.

The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments and revisions to existing standards to the Group. The Group is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the consolidated financial statements will be resulted.

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) property investment, (ii) hotel operations.

	2013	2012
	HK$'000	*HK$'000*
Revenue from hotel operations	**3,147**	3,941
Rental income	**3,480**	2,495
	6,627	6,436

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 operations segment is engaged in hotel rental and food & beverage business.

b) the property investment segment is investment in properties and;

c) the unallocated segment comprises operations other than those specified in (a) and (b) above and includes that of the corporate office.

Capital expenditure comprise additions to investment properties, property, plant and equipment, land use rights and construction in progress. Segment assets consist primarily of property, plant and equipment, land use rights, construction in progress, investments 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 expenditure based on reportable segments for the years ended 31 March 2013 and 2012 are as follows:

	Property investment *HK$'000*	**Hotel operations** Note *HK$'000*	**Total for reportable segments** *HK$'000*	**Unallocated** *HK$'000*	**The Group** *HK$'000*
For the year ended 31 March 2013					
Segment revenue:					
Sales to external customers	**3,480**	**3,147**	**6,627**	**–**	**6,627**
Segment results	**4,972**	**(22,749)**	**(17,777)**	**(3,400)**	**(21,177)**
Finance income	**12**	**184**	**196**	**262**	**458**
Finance costs	**(1,888)**	**(17,790)**	**(19,678)**	**(26,958)**	**(46,636)**
Profit/(loss) before taxation	**3,096**	**(40,355)**	**(37,259)**	**(30,096)**	**(67,355)**
Taxation	**(5,083)**	**(4)**	**(5,087)**	**(85)**	**(5,172)**
Loss for the year	**(1,987)**	**(40,359)**	**(42,346)**	**(30,181)**	**(72,527)**
Other segment information					
Depreciation and amortization	**277**	**6,646**	**6,923**	**625**	**7,548**
Fair value gain on investment property	**4,085**	**–**	**4,085**	**–**	**4,085**
Reversal of provision for receivable	**–**	**–**	**–**	**4,100**	**4,100**
Written back of other payables	**–**	**1,427**	**1,427**	**–**	**1,427**
Additions to					
– Property, plant and equipment	**–**	**53,099**	**53,099**	**7**	**53,106**
– Construction in progress	**1,899**	**–**	**1,899**	**–**	**1,899**

	Property investment HK$'000	Hotel operations [Note] HK$'000	Total for reportable segments HK$'000	Unallocated HK$'000	The Group HK$'000
For the year ended 31 March 2012					
Segment revenue:					
Sales to external customers	2,495	3,941	6,436	–	6,436
Segment results	21,316	(15,985)	5,331	(9,204)	(3,873)
Finance income	3	126	129	254	383
Finance costs	(3,149)	(21,561)	(24,710)	(23,873)	(48,583)
Loss before taxation	18,170	(37,420)	(19,250)	(32,823)	(52,073)
Taxation	–	(345)	(345)	–	(345)
Profit/(loss) for the year	18,170	(37,765)	(19,595)	(32,823)	(52,418)
Other segment information					
Depreciation and amortization	106	5,452	5,558	1,733	7,291
Fair value gain on investment property	979	–	979	–	979
Gain on disposal of property, plant and equipment	–	968	968	–	968
Gain on transfer of interest in properties before completion of acquisition	–	3,283	3,283	–	3,283
Available-for-sale financial assets – release of reserve upon disposal	–	–	–	844	844
Impairment loss reclassified from available-for-sale financial assets reserve	–	–	–	323	323
Gain on disposal of a subsidiary	–	–	–	100	100
Gain on disposal of assets held for sale	–	5,038	5,038	–	5,038
Gain on disposal of available for sale financial assets	21,892	–	21,892	–	21,892
Additions to					
– Property, plant and equipment	3,365	36,666	40,031	106	40,137
– Construction in progress	13,031	–	13,031	–	13,031

Note:

Hotel operations segment included hotels which have not been in operations as at 31 March 2013.

Information about major customers

Revenue of approximately HK$2.1 million and HK$1.0 million (FY2012: HK$1.7 million and nil) were derived from Customer A and Customer B in the property investment segment respectively. No other single customer contributed 10% or more to the Group's revenue for both FY2013 and FY2012.

The segment assets and liabilities based on reportable segments as at 31 March 2013 and 2012 are as follows:

	Property investment	Hotel operations	Total for reportable segments	Unallocated	The Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2013					
Segment assets	**151,713**	**336,577**	**488,290**	**2,329**	**490,619**
Bank balances and cash	**6,363**	**61,791**	**68,154**	**22,652**	**90,806**
Total assets	**158,076**	**398,368**	**556,444**	**24,981**	**581,425**
Segment liabilities	**29,457**	**91,293**	**120,750**	**7,149**	**127,899**
Amount due to ultimate holding company	**19,791**	**146,128**	**165,919**	**282,464**	**448,383**
Total liabilities	**49,248**	**237,421**	**286,669**	**289,613**	**576,282**
At 31 March 2012					
Segment assets	111,636	369,616	481,252	3,734	484,986
Bank balances and cash	1,776	60,855	62,631	62,428	125,059
Total assets	113,412	430,471	543,883	66,162	610,045
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	7,917	142,172	150,089	255,551	405,640
Total liabilities	34,064	243,112	277,176	262,976	540,152

The Group's businesses operate in Hong Kong and the People's Republic of China (the "PRC"). The Group's revenue for the years ended 31 March 2013 and 2012 and non-current assets as at 31 March 2013 and 2012 based on geographical area are as follows:

	2013	2012
	HK$'000	*HK$'000*
Revenue		
Hong Kong	–	–
PRC	**6,627**	6,436
	6,627	6,436
Non-current assets		
Hong Kong	**1,503**	1,008
PRC	**396,804**	462,569
	398,307	463,577

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. OTHER GAIN

	2013	2012
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	–	968
Gain on disposal of assets held for sale	–	5,038
Gain on transfer of interest in properties before completion of acquisition	–	3,283
Other gain	**192**	359
Available-for-sale financial assets – release of reserve upon disposal	–	844
Gain on disposal of available-for-sale financial assets	–	21,892
Written back of other payables	**1,427**	–
	1,619	32,384

4. STAFF COSTS

The staff costs disclosed below are for all employees and include all Directors' emoluments.

	2013	2012
	HK$'000	*HK$'000*
Directors' fees	**862**	900
Salaries and other short-term employee benefits	**9,452**	11,012
(Reversal)/Provision of unutilized annual leave	**(15)**	29
Pension costs – MPF *(Note i)*	**92**	96
Social security costs *(Note ii)*	**1,469**	1,446
Overprovision for bonus	**–**	(5,450)
	11,860	8,033

Notes:

i: There were no forfeited contributions during the years ended 31 March 2013 and 2012.

ii: All employees of the subsidiaries of the Company in the PRC excluding Hong Kong who are PRC citizens participate in employee social security plans enacted in the PRC, including pension, medical and other welfare benefits, which are organized and administrated by the government authorities. According to the relevant regulations, the Group contributes on a monthly basis based on certain percentages of the salaries of the employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are expensed as incurred.

5. OPERATING LOSS

	2013	2012
	HK$'000	*HK$'000*
Operating loss is arrived at after charging/(crediting):		
Legal and professional fee	**479**	8,575
Consultancy fee	**475**	324
Depreciation and amortization	**7,548**	7,291
Impairment loss reclassified from available-for-sale financial assets reserve	**–**	323
Auditors' remuneration	**833**	765
Net exchange gain	**(1,353)**	(751)
Reversal of provision for receivable	**(4,100)**	–
Office rental	**1,863**	2,968
Direct costs attributable to operating lease	**20**	–

6. TAXATION

No provision for Hong Kong profits tax (FY 2012: Nil) has been made for the year as the Group has no assessable profit for the year. Taxation on PRC profits has been calculated on the estimated assessable profit for the year at the rates of taxation in the PRC.

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

	2013	2012
	HK$'000	*HK$'000*
Current tax – PRC	**7**	4
Deferred taxation	**5,165**	341
	5,172	345

7. BASIC AND DILUTED LOSS PER ORDINARY SHARE FOR LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

	2013	2012
Loss for the year attributable to equity holders of the Company, HK$'000	**(70,799)**	(52,418)
Weighted average number of ordinary shares in issue	**1,529,600,200**	1,529,600,200
Basic loss per ordinary share, HK cents	**(4.63)**	(3.43)

(b) The calculation of diluted loss per ordinary share is based on the loss for the year attributable to equity holders of the Company and the weighted average number of ordinary shares used, which is the same for calculating basic loss per ordinary share above, as the Company did not have any dilutive potential ordinary shares arising from share options during the two years ended 31 March 2013 and 31 March 2012.

The preferred shares issued to the non-controlling interest for the subsidiary have no potentially dilutive effect to the ordinary shares of the Group for financial year ended 31 March 2013 and 2012 and as such no diluted earnings per ordinary share is presented.

8. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK$'000	Furniture and fixtures HK$'000	Office equipment and machinery HK$'000	Computer and related equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 April 2012	244,442	13,406	6,349	6,140	4,198	274,535
Additions	53,058	20	–	28	–	53,106
Reclassified as investment properties [Note]	(9,831)	–	–	–	–	(9,831)
Reclassified as assets held for sale *(Note 12)*	(86,659)	(4,977)	–	–	–	(91,636)
Exchange difference	899	46	22	20	4	991
At 31 March 2013	201,909	8,495	6,371	6,188	4,202	227,165
Accumulated depreciation						
At 1 April 2012	7,350	10,794	4,808	2,159	3,207	28,318
Charge for the year	1,526	980	1,185	673	617	4,981
Reclassified as investment properties [Note]	(195)	–	–	–	–	(195)
Reclassified as assets held for sale *(Note 12)*	(6,164)	(3,728)	–	–	–	(9,892)
Exchange difference	35	41	25	9	1	111
At 31 March 2013	2,552	8,087	6,018	2,841	3,825	23,323
Net book value						
At 31 March 2013	199,357	408	353	3,347	377	203,842
Cost						
At 1 April 2011	248,836	17,005	6,137	5,958	4,345	282,281
Additions	40,031	87	–	19	–	40,137
Disposals	(7,505)	(3,982)	(11)	(38)	(182)	(11,718)
Reclassified as investment properties [Note]	(46,635)	–	–	–	–	(46,635)
Exchange difference	9,715	296	223	201	35	10,470
At 31 March 2012	244,442	13,406	6,349	6,140	4,198	274,535
Accumulated depreciation						
At 1 April 2011	5,912	13,593	3,470	1,465	2,539	26,979
Charge for the year	1,447	1,006	1,154	664	802	5,073
Disposals	(147)	(3,982)	(52)	(4)	(157)	(4,342)
Exchange difference	138	177	236	34	23	608
At 31 March 2012	7,350	10,794	4,808	2,159	3,207	28,318
Net book value						
At 31 March 2012	237,092	2,612	1,541	3,981	991	246,217

Note:

During the year ended 31 March 2013, property, plant and equipment of HK$9,636,000 (FY2012: HK$46,635,000) were reclassified as investment properties with a fair value gain before taxes of HK$1,000,000 (FY2012: HK$2,536,000) being credited to other comprehensive income.

9. LAND USE RIGHTS

The Group's interests in land use rights, which represent prepaid operating lease payments and their net book values, are analysed as follows:

	2013	2012
	HK$'000	*HK$'000*
Cost:		
At 1 April	**73,970**	87,979
Disposals	**–**	(8,899)
Reclassification		
Assets held for sale *(Note 12)*	**(6,909)**	–
Investment properties *Note*	**(8,057)**	(8,547)
Exchange difference	**88**	3,437
At 31 March	**59,092**	73,970
Accumulated amortization:		
At 1 April	**7,061**	5,217
Charge for the year	**2,567**	2,218
Disposals	**–**	(600)
Reclassification		
Assets held for sale *(Note 12)*	**(998)**	–
Investment properties *Note*	**(890)**	–
Exchange difference	**30**	226
At 31 March	**7,770**	7,061
Net book value		
At 31 March	**51,322**	66,909

Note:

During the year ended 31 March 2013, land use right of HK$7,167,000 (FY2012: HK$8,547,000) was reclassified as investment properties with a fair value gain before taxes of HK$12,172,000 (FY2012: HK$17,605,000) being credited to other comprehensive income.

10. INVESTMENT PROPERTIES

	Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 April	**93,758**	–
Reclassified from property, plant and equipment	**10,636**	49,171
Reclassified from land use rights	**19,339**	26,152
Reclassified from construction in progress	**–**	17,446
Increase in value charged to profit and loss	**4,085**	979
Exchange difference	**587**	10
At 31 March	**128,405**	93,758

The Group's property interest held under operating lease to earn rentals are measured using the fair value model.

(a) Valuation basis

The fair value of the investment properties in the PRC at 31 March 2013 has been arrived on the basis of valuation carried out on that date by RHL Appraisal Limited, independent qualified professional valuers not connected to the Group (FY2012: same). The valuation was arrived at by reference to market evidence of transaction prices for similar properties at similar location.

(b) Leasing arrangements

Investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

11. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2013	2012
	HK$'000	*HK$'000*
Non-current		
Deposits for acquisition of hotel properties	**7,243**	51,097
	7,243	51,097
Current		
Trade receivables	**107**	42
Other receivables	**2,851**	19,522
Other prepayments and deposits	**1,453**	1,845
	4,411	21,409
	11,654	72,506

A significant part of the Group's sales are by credit cards or against payment of deposits. The trade receivables are with general credit term of 0 to 90 days. As at 31 March 2013, the trade receivables aged within two month and are not past due (FY2012: within one months and are not past due). Management is of the opinion that no impairment provision is made to other receivables as there is no indication of impairment noted for the year.

The carrying amounts of receivables, prepayments and deposits approximate their fair value due to the fact that the effect of discounting is not material. As at 31 March 2013, none of the receivables, prepayments and deposits was impaired (FY2012: HK$4,100,000 of the other receivables was impaired and fully provided for).

12. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On 24 October 2012 and 8 February 2013, "U" Inns & Hotels Investment Limited, an indirect subsidiary of the Company, entered into agreements with two independent third parties to dispose the equity interest in "U" Inns (Wafangdian) Hotel Management Co., Limited and "U" Inns & Hotels (Tu Lu Fan) Management Co., Limited for a consideration of RMB38.1 million (equivalent to approximately HK$47.2 million) and RMB16.2 million (equivalent to approximately HK$19.9 million) respectively, with approximately HK$9.8 million of the total consideration was not received as at 31 March 2013. The said subsidiaries will realize, on completion, a total gain on the disposals of approximately HK$3.2 million and HK$3.8 million respectively.

Further, equity interest in "U" Inns & Hotels (Xiang Fan) Management Co., Limited and "U" Inns & Hotels (Bu Er Jin) Management Co., Limited have been presented as assets and liabilities classified held for sale following the approval of the Group's management in March 2013. Equity transfer agreements were entered subsequently on 31 May 2013.

The completion dates for the above transactions are expected by March 2014.

The carrying amounts of the hotel properties and land use right were reclassified as "Assets held for sale" in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discounted Operations".

	2013
	HK$'000
Assets	
At 1 April	**–**
Reclassified from property, plant and equipment *(Note 8)*	**81,744**
Reclassified from land use right *(Note 9)*	**5,911**
Exchange difference	**246**
At 31 March	**87,901**
Liabilities	
At 1 April	**–**
Reclassified from payables and accruals	**749**
At 31 March	**749**

13. PAYABLES AND ACCRUALS

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**133**	159
Property acquisition cost payable	**1,604**	1,119
Accrued bonus	**–**	950
Accrued expenses for transaction of hotel properties	**30,450**	29,000
Other payables and accruals	**17,850**	33,136
Deposits received for disposal of equity interest in subsidiaries	**57,310**	–
	107,347	64,364

As at 31 March 2013, trade payables of HK$77,000 and HK$56,000 (FY2012: HK$57,000 and HK$102,000) were aged within one month and between one and three months respectively.

14. CONVERSION OF PREFERRED SHARES BY A SUBSIDIARY INTO COMMON SHARES

On 28 October 2009, "U" Inns & Hotels Holdings Limited ("UIHHL") has entered into subscription agreement where UIHHK 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 settled partially by setting off against the loans advanced to the Group by the subscriber before the subscription of HK$70.0 million, and the remaining HK$75.0 million was settled in cash. Subscription was completed on 1 November 2009. Details of the issuance of Preferred Shares can be referred to the Company's announcements dated 27 October 2009 and 29 October 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.

The Preferred Shares are compound financial instrument which is separated into two components: a liability component and an equity component. The liability component was recognised 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 component of compound financial instrument" in the consolidated statement of financial position before conversion of Preferred Shares into Common Shares. The equity component is presented as "Non-Controlling interest" in the statement of changes in equity.

On 1 November 2012, UIHHL 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 Group's shareholding in UIHHL was decreased from 100% to 74.1%. The difference between the equity component and the amount by which the non-controlling interests are adjusted, was recognized directly in capital reserve and attributable to the owners of the parent.

	Group
	HK$'000
Proceeds of issue	145,000
Liability component	(21,636)
Equity component at 31 March 2012	123,364
Transfer to reserves upon conversion	(33,470)
Loss for the year attributable to non-controlling interest	(1,728)
Translation exchange reserve	209
Non-controlling interest at 31 March 2013	88,375
Liability component at 1 April 2010	22,525
Interest expenses for the year ended 31 March 2011	1,894
Liability component at 31 March 2011	**24,419**
Interest expenses for the year ended 31 March 2012	**1,216**
Liability component at 31 March 2012	**25,635**
Interest expenses for the year ended 31 March 2013	**465**
Repayment	**(26,100)**
Liability component as at 31 March 2013	**–**

At 31 March 2013, the Group's liability component of compound financial instrument were repayable as follows:

	2013 HK$'000	2012 HK$'000
Within 1 year – current portion	–	25,635
Between 1 and 5 years – non-current portion	–	–
	–	25,635

15. BORROWINGS

	2013 HK$'000	2012 HK$'000
Other loans	–	35,470
Obligations under finance leases	–	586
Amount due to ultimate holding company	**448,383**	405,640
	448,383	441,696

16. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties during the year.

(a) Interest expense

During the year, the Group has interest expense payable to VXLCPL, the ultimate holding company, amounting HK$42.8 million for the loan as disclosed in Note 15 (FY2012: HK$40.2 million).

The loan from the ultimate holding company is interest bearing at fixed rate, unsecured and repayable in September 2013. However, based on the mutual agreement on 17 May 2013, the term of the repayment was extended to 30 September 2014.

(b) Key management compensation

	2013 HK$'000	2012 HK$'000
Directors' fee	–	–
Salaries and other short-term employee benefits	**2,318**	1,936
Pension costs – MPF	**15**	12
	2,333	1,948

DIRECTORS' COMMENTARIES

FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended 31 March 2013 (FY2012: Nil)

FINANCIAL PERFORMANCE REVIEW

Turnover

The Group recorded a turnover for the year in the amount of HK$6.6 million (FY2012: HK$6.4 million). Current year turnover comprised rental income, hotel rental income and F&B revenue of HK$3.5 million, HK$2.7 million and HK$0.4 million respectively. For the last financial year, rental income, hotel rental income and F&B revenue were HK$2.5 million, HK$3.5 million and HK$0.4 million, respectively.

Staff costs

Staff costs have decreased from HK$13.5 million to HK$11.9 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. For the last financial year, staff costs included a write back of a provision for bonus of HK$5.5 million.

Other operating expenses

Other operating expenses which are of recurring nature comprise mainly office rentals, and other corporate expenses related to on-going corporate activities. Other operating expenses have decreased significantly from HK$28.3 million last year to HK$14.1 million this year mainly due to reduction in recurring cost and a reversal of a provision for bad debt of HK$4.1 million.

Finance costs

The Group has fully repaid a loan in February 2013 which resulted in a decrease in finance costs from HK$48.6 million to HK$46.6 million in current year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained total bank and cash balances of HK$90.8 million as of 31 March 2013. Cash deposits have been placed with major banks in Hong Kong and the PRC in the form of United States dollar, Hong Kong dollar and Renminbi deposits.

As of 31 March 2013, the Group had an amount due to ultimate holding company totaling HK$448.4 million due within one 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 31 March 2013, the gearing ratio was 6,952.7% (FY2012: 453.0%). The increase in the gearing ratio over the two financial years was mainly due to a smaller total equity base. Subsequent to the year end, the management has obtained agreements by the ultimate holding company to extend the repayment of certain short-term borrowings totaling HK$448.4 million in May 2013. During the year, the Group totally received HK$67.8 million from its disposal of certain subsidiaries and debts collection.

Subsequent to the year end, the Group also entered into two Equity Transfer Agreements to sell 100% equity interest of 2 subsidiaries in May 2013 for a total consideration of HK$43.1 million.

Together with the continuous financial support from the principal shareholder, the management is confident that by executing its plans the Group is able to meet its obligations.

SUBSEQUENT EVENT

On 17 May 2013, the management has obtained agreements from VXLCPL, who agreed to extend the repayment of the borrowings due to the ultimate holding company totaling HK$448.4 million to 30 September 2014.

On 31 May 2013, "U" Inns & Hotels Investment Limited（你的客棧酒店有限公司）("UIHIL"), a subsidiary of the Company, entered into two Equity Transfer Agreements with two independent third parties to sell 100% equity interest of "U" Inns & Hotels (Xiang Fan) Management Co., Limited（你的客棧（襄樊）酒店管理有限公司）("Xiangfan") and "U" Inns & Hotels (Bu Er Jin) Management Co., Limited（你的客棧酒店管理（布爾津縣）有限公司）("Bu Er Jin") for the consideration of RMB24.9 million (equivalent to approximately HK$31.4 million) and RMB9.3 million (equivalent to approximately HK$11.7 million) respectively. In addition to the consideration, the two independent third parties will also repay the entire inter-company debts owed by Xiang Fan and Bu Er Jin in the amount of approximately RMB12.1 million (equivalent to approximately HK$15.2 million) and RMB0.9 million (equivalent to approximately HK$1.1 million) respectively. The estimated gain before expenses and taxes from the disposals of Xiangfan and Bu Er Jin are approximately of RMB14.2 million (equivalent to approximately HK$17.9 million) and RMB0.8 million (equivalent to approximately HK$1.0 million) respectively.

BUSINESS REVIEW AND CORPORATE DEVELOPMENT

The Group maintained its strategies of developing its properties into budget hotels or commercial offices for leasing or sale, or, when appropriate, outright sale. The Group also continued its efforts in seeking appropriate joint ventures or partnership with companies in the hospitality, tourism and property industries or companies with investment interests in these industries.

PROSPECTS

China's real estate market is expected a modest recovery in 2013. The Chinese government seeks to increase domestic demand, promoting consumption growth and continue to support the development of tourism. We expect that a good development trend of China's economy and constantly improvement in the investment environment are conducive to the Group for maintaining its strategies. At the same time, we will continue to focus on China's tourism and real estate market conditions in order to seek better investment returns.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 March 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

Compliance with the Code on Corporate Governance Practices

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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the year ended 31 March 2013, with minor deviations as stated below.

Pursuant to Code A.2.1 of the CG Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The roles of both the Chairman and the CEO were performed by Datuk LIM Chee Wah 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.

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 Independent Non-executive Directors, except Mr. Alan Howard SMITH, *J.P.*, are appointed for a specific term. As one-third of all the Directors are subject to retirement by rotation at each Annual General Meeting pursuant to Article 133 of the Articles of Association, the Board considers that sufficient measures have been made to ensure that the Company's corporate governance practices are no less exacting than those stipulated in the CG Code.

In accordance with Article 133 of the Articles of Association, one-third of the directors shall retire from office by rotation whereas the Code A.4.2 states that each director shall retire by rotation at least once every three years. As the Board consists of five Directors and each of them retires at least once every three years, this effectively achieves the same objectives as set out in the CG Code.

Pursuant to Code A.6.5, the Company did not receive any training record from Datuk LIM Chee Wah and Mr. XIAO Huan Wei.

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 year ended 31 March 2013.

Internal Control Review

The Company has engaged an independent firm of certified public accountants to conduct an independent review on internal control environment of the Group for the year ended 31 March 2013. Results of the independent review concluded that the internal control system of the Company and of the Group was adequate. The independent review also made certain recommendations in their support for the Company's consideration to improve its internal control and efficiency.

The Board has reviewed the results of the independent review and, after discussion with management, is satisfied that the Group's system of internal controls is adequate and effective. The Board will continue to review and improve the Group's internal control system, taking into account the recommendations of the independent review and the prevailing regulatory requirements.

Review of Preliminary Announcement

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2013 have been agreed by the Group's external auditors, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 two members are Mr. Alan Howard SMITH, *J.P.* and Mr. SOO Ying Pooi. The financial results for the year ended 31 March 2013 have been reviewed by the Audit Committee.

Dr. Allen LEE Peng Fei, *J.P.* retired at the 2012 AGM and ceased to be a member of the Audit Committee. Mr. SOO Ying Pooi was appointed as a member of the Audit Committee on 16 November 2012.

ANNUAL GENERAL MEETING

The date of Annual General Meeting will be announced later in accordance with the Listing Rules.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our utmost gratitude to our valued clients, shareholders and business associates for their continued support for and confidence in the Group. I also wish to express our sincere appreciation to our management and employees for their positive efforts over the past year.

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

Hong Kong, 6 June 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