
IMPORTANT

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If you have sold or transferred all your shares in **VXL Capital Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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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 ASSET SWAP AGREEMENT

Financial Adviser to VXL Capital Limited



Independent Financial Adviser to the Independent Board Committee and the Shareholders



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DEFINITIONS

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

| | |
|------------------------|--|
| “Announcement” | the announcement of the Company dated 4 July 2013 in relation to the Asset Swap Agreement |
| “Asset Swap Agreement” | the master agreement for share transfer (including its ancillary agreements) dated 4 July 2013 entered into between the Company, UIHK and FSG in relation to the Transaction |
| “Board” | the board of Directors |
| “Business Day(s)” | any day(s) 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 Transaction pursuant to 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 |
| “Goldin Financial” | Goldin Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders on the Transaction |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

DEFINITIONS

| | |
|-------------------------------|--|
| “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 constituted to give recommendation to the Shareholders on the Asset Swap Agreement |
| “Latest Practicable Date” | 9 August 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “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 circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Remaining Group” | the Group immediately after Completion |
| “Remaining Hotel Properties” | the Hotel Properties located in Yingkou, Wuhan, Tonghua, Jinggangshan, Weifang and Ninghai, the PRC |
| “RHL” | RHL Appraisal Limited, an independent professional valuer |
| “SFO” | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| “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 |

DEFINITIONS

| | |
|------------------------|--|
| “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 |
| “sq.m.” | square metre(s) |
| “US\$” | United States dollars, the lawful currency of the United States of America |

Throughout this circular, 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*

LETTER FROM THE BOARD

VXL CAPITAL LIMITED

卓越金融有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

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

Registered Office:

Room 603A, 6th Floor

Empire Centre

No. 68 Mody Road

Tsim Sha Tsui East

Kowloon, Hong Kong

13 August 2013

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ASSET SWAP AGREEMENT

INTRODUCTION

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. The Transaction constitutes a major and connected transaction of the Company and is subject to the independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) details of the Asset Swap Agreement; (ii) financial information of the Group and the UIHHL Group; (iii) valuation report on the Hotel Properties; (iv) the recommendation of the Independent Board Committee; (v) the advice of Goldin Financial; and (vi) other information required under the Listing Rules.

LETTER FROM THE BOARD

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 as at the date of the Asset Swap Agreement. The principal business activity of UIHHL and its subsidiaries is hotel investment and operation, and property investment 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 as at the date of the Asset Swap Agreement and is therefore a connected person of the Company under the Listing Rules. The ultimate beneficial owner of FSG is Datuk LIM Soo Kit. As at the date of the Asset Swap Agreement and the Latest Practicable Date, FSG and its associates 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. Given that FSG has a 25.9% effective interest in U Inns Xi'an through its holding of the UIHHL Shares, the Transaction is in effect an asset swap whereby the Group exchanges 74.1% equity interest in U Inns Xi'an for 25.9% equity interest in UIHHL. There is no cash payment from UIHK to FSG or vice versa.

LETTER FROM THE BOARD

Pursuant to the Asset Swap Agreement, UIHK also agreed to increase the registered capital of U Inns Xi'an by an amount equivalent to the balance of 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) in order to enable U Inns Xi'an to repay such inter-company loans 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 UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL; (ii) the preliminary valuation of the Hotel Properties as at 31 May 2013 as indicated by RHL and (iii) the net asset value of U Inns Xi'an as at 31 March 2013 (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi'an held by the Group.

Set out below is the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL:

| | <i>HK\$'000</i> |
|--|----------------------|
| Carrying value | 253,558 |
| Valuation surplus (<i>Note 1</i>) | 64,758 |
| Disposal consideration less carrying value (<i>Note 2</i>) | <u>27,703</u> |
| Revalued net asset value | <u>346,019</u> |
| 25.9% of revalued net asset value | <u><u>89,619</u></u> |

Notes:

1. Being the difference between the aggregate market value of the Remaining Hotel Properties as at 31 May 2013 as assessed by RHL and the aggregate carrying value of the Remaining Hotel Properties as at 31 March 2013.
2. Being the difference between the consideration as stipulated under the relevant equity transfer agreements for the disposals of the companies holding the Hotel Properties located in Wafangdian, Tulufan, Buerjin and Xiangfan and their aggregate carrying value as at 31 March 2013. The relevant agreements were either entered into before 31 March 2013 but were not yet completed as of 31 March 2013, or were entered into after 31 March 2013.

LETTER FROM THE BOARD

Set out below is the revalued net asset value of U Inns Xi'an (assuming completion of the increase in registered capital) as at 31 March 2013 attributable to the 74.1% effective interest in U Inns Xi'an held by the Group:

| | <i>HK\$'000</i> |
|-----------------------------------|----------------------|
| Carrying value | 84,374 |
| Valuation surplus (<i>Note</i>) | <u>40,631</u> |
| Revalued net asset value | <u>125,005</u> |
| 74.1% of revalued net asset value | <u><u>92,629</u></u> |

Note: Being the difference between the market value of the Xi'an Hotel Property as at 31 May 2013 as assessed by RHL and the carrying value of the Xi'an Hotel Property as at 31 March 2013.

Based on the above, there is a difference of approximately HK\$3.0 million between the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL and U Inns Xi'an (assuming completion of the increase in registered capital) as at 31 March 2013 attributable to the 74.1% effective interest in U Inns Xi'an held by the Group. Pursuant to the Asset Swap agreement, such difference shall be disregarded and deemed waived such that none of the parties to the Asset Swap Agreement shall be required to make any cash payment to the others in connection with the Transaction.

Pursuant to the Asset Swap Agreement, the Company, UIHK and FSG also executed two ancillary agreements in relation to the Transaction with the same terms as the Asset Swap Agreement for the purposes of local filings, being (i) a share purchase agreement between the Company and FSG in relation to the UIHHL Shares; and (ii) a share purchase agreement between UIHK and FSG in relation to the Xi'an Shares.

LETTER FROM THE BOARD

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 (as the transferee under the Equity Transfer) may waive any of the conditions referred to in (iii), (iv), (v) or (vi) above as these conditions are relevant for the due authorisation and transfer of the Xi'an Shares by UIHK to FSG. FSG does not intend to waive such conditions, but may consider waiving certain condition(s) only if such waiver would not have any material adverse consequences depending on the circumstances at the time of Completion. If any of the aforesaid conditions has not been fulfilled or waived on or before the 90th 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.

As at the Latest Practicable Date, the conditions referred to in (i) and (iii) above have been fulfilled.

LETTER FROM THE BOARD

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. Subsequent to 31 March 2013, the UIHHL Group completed the disposals of the entire interests in two companies holding the Hotel Properties located in Tulufan and Xiangfan on 1 July 2013 and 10 July 2013 respectively. As at the Latest Practicable Date, the UIHHL Group has a portfolio of nine Hotel Properties (including the Xi'an Hotel Property) situated in various locations in the PRC, namely Yingkou, Wuhan, Xi'an, Tonghua, Jinggangshan, Weifang, Ninghai, Buerjin and Wafangdian. The aggregate gross floor area of the Hotel Properties is approximately 77,220 sq.m.

As at the Latest Practicable Date, UIHHL Group had entered into two agreements to dispose of its investments in two Hotel Properties located in Wafangdian and Buerjin but such disposals have not yet been completed. Details of such disposals are set out in the announcements of the Company dated 24 October 2012 and 31 May 2013 respectively. The disposal of the company holding the Hotel Property located in Buerjin has not been completed pending approval procedures of the local government authority. The Company does not foresee any legal impediment and expects completion to take place by end of September 2013. The physical handover of the Hotel Property located in Wafangdian has been completed and the consideration has been received in full. However, the disposal of the relevant property holding company has not been completed pending the settlement of inter-company loans by the purchaser. The Company does not foresee any legal impediment and expects completion to take place by end of February 2014.

LETTER FROM THE BOARD

Set out below is a summary of the audited financial information of the UIHHL Group as extracted from the accountant's report on the UIHHL Group as set out in Appendix II to this circular:

| | For the year ended 31 March | |
|---------------------|------------------------------------|----------------------------|
| | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss before tax | 17,131 | 20,348 |
| Net loss after tax | 17,476 | 25,520 |
| | | As at 31 March 2013 |
| | | <i>HK\$'000</i> |
| Net asset value | | 337,933 |

Set out below is a summary of the unaudited financial information of the UIHHL Group (excluding U Inns Xi'an):

| | For the year ended 31 March | |
|--|------------------------------------|----------------------------|
| | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss before tax | 14,255 | 16,608 |
| Net loss after tax | 14,600 | 21,780 |
| | | As at 31 March 2013 |
| | | <i>HK\$'000</i> |
| Net asset value | | 266,296 |
| Net asset value (assuming completion of the increase in the registered capital of U Inns Xi'an) | | 253,558 |

Based on the valuation report prepared by RHL as set out in Appendix IV to this circular, the aggregate market value of the Remaining Hotel Properties as at 31 May 2013 (assuming the UIHHL Group is entitled to freely transfer the Hotel Properties located in Wuhan and Weifang) was RMB277.9 million (equivalent to approximately HK\$344.1 million).

LETTER FROM THE BOARD

Taking into account the market value of the Remaining Hotel Properties as at 31 May 2013 and the consideration as stipulated under the relevant equity transfer agreements for the disposals of the companies holding the Hotel Properties located in Wafangdian, Tulufan, Buerjin and Xiangfan, the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 amounted to approximately HK\$346.0 million. The revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL amounted to approximately HK\$89.6 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 approximately 14,172 sq.m. and has not yet commenced operation. Set out below is a summary of the financial information of U Inns Xi'an based on its unaudited accounts:

| | For the year ended 31 March | |
|---|------------------------------------|----------------------------|
| | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss (both before and after tax) | 2,876 | 3,740 |
| | | As at 31 March 2013 |
| | | <i>HK\$'000</i> |
| Net asset value | | 71,637 |
| Net asset value (assuming completion of the increase in its registered capital) | | 84,374 |

Based on the valuation report prepared by RHL as set out in Appendix IV to this circular, the market value of the Xi'an Hotel Property as at 31 May 2013 was RMB116.0 million (equivalent to approximately HK\$143.6 million).

Assuming completion of the increase in the registered capital of U Inns Xi'an pursuant to the terms of the Asset Swap Agreement and taking into account the market value of the Xi'an Hotel Property as at 31 May 2013, the revalued 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 amounted to approximately HK\$92.6 million.

LETTER FROM THE BOARD

Set out below is the operating information of the Hotel Properties as at the Latest Practicable Date:

| Hotel Properties | Features | Gross Floor Area (sq.m.) | Operating status | Date of commencement of operation | Occupancy rate for the year ended 31 March 2013 |
|------------------|---|--------------------------------|--|---|--|
| Yingkou | 17-storey commercial building with one basement floor | 10,740 | Leased to two independent third parties | 21 September 2010 | 40.9% |
| Wuhan | 5-storeys hotel with 83 guest rooms | 4,008 | Leased to one independent third parties | 10 October 2012 | 47.4% |
| Xi'an | 8-storey hotel with 314 guest rooms | 14,172 | Not yet commenced operation | | |
| Tonghua | 7-storey hotel with 118 guest rooms | 5,318 | Portion of the property is leased out to one independent third party | 12 December 2008 | 5.1% |
| Jinggangshan | 5-storey hotel with 202 guest rooms | 9,125 | Not yet commenced operation | N/A | N/A |
| Weifang | 7-storey hotel with 320 guest rooms | 14,404 | Not yet commenced operation | N/A | N/A |
| Ninghai | 7-storey hotel with 140 guest rooms | 6,647 | Not yet commenced operation | N/A | N/A |
| Buerjin | 4-storey hotel with 68 guest rooms | 3,068 | Not yet commenced operation | N/A | N/A |
| Wafangdian | 10-storey hotel with 246 guest rooms | 9,738 | Not yet commenced operation | N/A | N/A |

The Remaining Group intends to maintain its strategies of developing the six Remaining Hotel Properties into budget hotels or commercial offices for leasing or sales, or, when appropriate, outright sale. The Directors will assess the development potential of the Remaining Hotel Properties on an individual basis. If the rental rate represents a reasonable return, it is the intention of the Remaining Group to lease out the Remaining Hotel Properties. Otherwise, the Remaining Group will consider to develop and operate the Remaining Hotel Properties depending on the then market condition and prospects. The Remaining Group will also consider outright sale of the Remaining Hotel Properties subject to the then market price of the Remaining Hotel Properties.

LETTER FROM THE BOARD

The Remaining Group intends to conduct certain renovation works at the Hotel Properties located in Weifang and Jinggangshan for operation or leasing thereafter. The capital requirements for the renovation works are estimated to be approximately RMB10.2 million (equivalent to approximately HK\$11.4 million) and RMB8.2 million (equivalent to approximately HK\$10.2 million) respectively and will be funded by bank borrowings, if required.

The Company has from time to time considered investment opportunities with a view to maximizing Shareholders' return. As at the Latest Practicable Date, the Group did not have any intention to acquire any business, assets or properties other than the UIHHL Shares. As at the Latest Practicable Date, the Group did not have any intention to conduct any equity fund raising activities.

REASONS FOR AND BENEFITS OF THE TRANSACTION

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

On 1 November 2009, FSG completed the subscription of 2,590 series A preferred shares of UIHHL (the "Preferred Shares") at a total subscription price of HK\$145.0 million in cash. On 1 November 2012, the Preferred Shares were automatically converted into the UIHHL Shares, representing 25.9% of the issued common shares of UIHHL, in accordance with the terms of the Preferred Shares. The Company considers the acquisition of the UIHHL Shares will allow the Company to consolidate its interest in the UIHHL Group and formulate strategy and make decisions of the UIHHL Group in a more timely and efficient manner without the need of negotiating with and obtaining consent from FSG.

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 Latest Practicable Date, the UIHHL Group has entered into two agreements to dispose of its investments in two Hotel Properties but such disposals 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 as mentioned above, the UIHHL Group will own a total of six Remaining Hotel Properties located in Yingkou, Wuhan, Tonghua, Jinggangshan, Weifang and Ninghai, the PRC with an aggregate gross floor area of approximately 50,242 sq.m. The Transaction is in effect an asset swap and does not involve any cashflow for the Group.

LETTER FROM THE BOARD

POSSIBLE FINANCIAL EFFECTS OF THE TRANSACTION

Upon Completion, UIHHL will become a wholly-owned subsidiary of the Company and the profit or loss of the UIHHL Group attributable to the Shareholders will be increased by 25.9%. The financial results of U Inns Xi'an will no longer be consolidated in the financial statements of the Remaining Group. As the Xi'an Hotel Property has not yet commenced operations, it is expected that there will be no material effect on the earnings of the Remaining Group.

Based on the accountant's report on the UIHHL Group as set out in Appendix II to this circular, the unaudited accounts of U Inns Xi'an as at 31 March 2013 and the valuation report on the Hotel Properties prepared by RHL as set out in Appendix IV to this circular, it is estimated that the Group will realise a gain (before expenses and taxes) as a result of the Transaction of approximately HK\$27.1 million, being the difference between the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL in the amount of approximately HK\$89.6 million and the carrying value of U Inns Xi'an as at 31 March 2013 (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi'an held by the Group in the amount of approximately HK\$62.5 million.

On the other hand, the Group is expected to record a debit to the other reserve account in the amount of approximately HK\$23.1 million, being (i) the difference of approximately HK\$26.9 million between the revalued net asset value of U Inns Xi'an (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi'an held by the Group in the amount of approximately HK\$92.6 million and the carrying value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL in the amount of approximately HK\$65.7 million; less (ii) the difference of approximately HK\$3.0 million between the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL in the amount of approximately HK\$89.6 million and the revalued net asset value of U Inns Xi'an as at 31 March 2013 (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi'an held by the Group in the amount of approximately HK\$92.6 million; and less (iii) the translation difference of approximately HK\$0.8 million.

As a result, the shareholders' deficit of the Group is expected to improve by approximately HK\$4.0 million upon Completion. Shareholders should note that the actual amount of the gain or loss and the debit to the other 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 auditor.

LETTER FROM THE BOARD

As disclosed in the annual report of the Company for the year ended 31 March 2013, the Group recorded a total shareholder's deficit of approximately HK\$83.2 million and a non-controlling interest of approximately HK\$88.4 million. Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming Completion had taken place on 31 March 2013, the total assets of the Remaining Group will be decreased by approximately HK\$103.9 million from approximately HK\$581.4 million to approximately HK\$477.5 million. The total liabilities of the Remaining Group will be decreased by approximately HK\$17.3 million from approximately HK\$576.3 million to HK\$559.0 million. Given that UIHHL will become a wholly-owned subsidiary of the Company, the non-controlling interest of the Group will be adjusted to nil upon Completion. As a result, the Group will record a total shareholders' deficit of approximately HK\$81.5 million, representing an improvement in total shareholder's deficit of approximately HK\$1.7 million taking into account the estimated amount of legal and professional fees and other expenses directly attributable to the Transaction of approximately HK\$2.3 million.

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) as at the date of the Asset Swap Agreement, FSG is a connected person 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.

None of the Directors has a material interest in the Transaction and is required to abstain from voting on the Board resolutions approving the Asset Swap Agreement.

As at the date of the Asset Swap Agreement and the Latest Practicable Date, FSG and its associates 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 Asset Swap Agreement. 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 Latest Practicable Date), 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.

LETTER FROM THE BOARD

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. Goldin Financial has been appointed to advise the Independent Board Committee in this regard.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Goldin Financial, considers 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. Accordingly, if an extraordinary general meeting were convened to approve the Asset Swap Agreement, the Independent Board Committee would recommend the Shareholders to vote in favour of the resolutions to approve the Asset Swap Agreement.

The Directors (including the independent non-executive Directors) 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. If an extraordinary general meeting were convened to approve the Asset Swap Agreement, the Directors would recommend the Shareholders to vote in favour of the resolutions to approve the Asset Swap Agreement.

Yours faithfully
For and on behalf of the Board
Datuk LIM Chee Wah
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

VXL CAPITAL LIMITED

卓越金融有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

13 August 2013

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ASSET SWAP AGREEMENT

We have been appointed as the Independent Board Committee to advise the Shareholders in respect of the Asset Swap Agreement, details of which are set out in the letter from the Board contained in the circular of the Company (the “Circular”) dated 13 August 2013. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We wish to draw your attention to the letter from the Board on pages 4 to 16 of the Circular and the letter from Goldin Financial to the Independent Board Committee and the Shareholders containing its advice on the Asset Swap Agreement on pages 18 to 39 of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by Goldin Financial in relation to the Asset Swap Agreement as stated in its letter, we 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. Accordingly, if an extraordinary general meeting were convened to approve the Asset Swap Agreement, the Independent Board Committee would recommend the Shareholders to vote in favour of the resolutions to approve the Asset Swap Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Alan Howard SMITH, J.P.

Mr. David YU Hon To

Mr. SOO Ying Pooi

Independent Non-executive Director

LETTER FROM GOLDIN FINANCIAL

The following is the full text of the letter from Goldin Financial to the Independent Board Committee and the Shareholders in respect of the Asset Swap Agreement, prepared for the purpose of incorporation in this circular.



Goldin Financial Limited
23rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

13 August 2013

*To: the Independent Board Committee and the Shareholders of
VXL Capital Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ASSET SWAP AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Asset Swap Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 13 August 2013 issued by the Company (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

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.

LETTER FROM GOLDIN FINANCIAL

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) as at the date of the Asset Swap Agreement, 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 and the Latest Practicable Date, FSG and its associates 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. VXCPL, 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 Latest Practicable Date), has given written consent to the Transaction. The written consent from VXCPL 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

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Alan Howard Smith, J.P., Mr. David Yu Hon To, and Mr. Soo Ying Pooi, has been established to make recommendations to the Shareholders as to whether the terms of the Asset Swap Agreement are fair and reasonable and whether the Asset Swap Agreement is in the interests of the Company and the Shareholders as a whole.

We, Goldin Financial, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Asset Swap Agreement and to make a recommendation as to, among others, whether the terms of the Asset Swap Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM GOLDIN FINANCIAL

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, inter alia, the Announcement, the Asset Swap Agreement, the valuation report of the Hotel Properties prepared by RHL (the “**Valuation Report**”) and the annual report of the Company for the financial year ended 31 March 2013 (the “**Annual Report 2013**”). We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the Asset Swap Agreement and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

LETTER FROM GOLDIN FINANCIAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Shareholders in respect of the Asset Swap Agreement, we have taken into account the following principal factors and reasons:

1. Business and financial information of the Group

The Group is engaged in hotel investment and management, and property investment. Set out below is certain audited financial information of the Group for the two years ended 31 March 2012 and 2013 as extracted from the Annual Report 2013:

Table 1: Financial highlights of the Group

| | For the year ended 31 March | |
|--|-----------------------------|-------------------------|
| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
| Turnover | 6,627 | 6,436 |
| Loss for the year attributable to owners of the Company | <u>70,799</u> | <u>52,418</u> |
| As at 31 March | | |
| | 2013 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> |
| Non-current assets | 398,307 | 463,577 |
| Current assets | 183,118 | 146,468 |
| Current liabilities | 556,479 | 531,695 |
| Net current liabilities | 373,361 | 385,227 |
| Total shareholders' deficit | <u>83,232</u> | <u>53,471</u> |

LETTER FROM GOLDIN FINANCIAL

As illustrated in Table 1 above, the Group's audited turnover for the year ended 31 March 2013 increased to approximately HK\$6.63 million, representing an increase of approximately 2.95% from approximately HK\$6.44 million of the prior year. Loss for the year attributable to the owners of the Company for the year ended 31 March 2013 was approximately HK\$70.80 million, which deteriorated from the loss of approximately HK\$52.42 million of the prior year. According to the Annual Report 2013, the widened loss was mainly resulted from the reduction of other gain (including but not limited to gain on disposal of assets held for sale and gain on disposal of available for sale financial assets) from approximately HK\$32.38 million of the prior year to approximately HK\$1.62 million.

As at 31 March 2013, the Group had an audited net current liabilities and total shareholders' deficit of approximately HK\$373.36 million and approximately HK\$83.23 million respectively.

2. Information on the UIHHL Group and U Inns Xi'an

The UIHHL Group

The UIHHL Group is principally engaged in investments in the budget hotel chain with the brand name of "U" Inn in the PRC. Subsequent to 31 March 2013, the UIHHL Group completed the disposals of the entire interests in two companies holding the Hotel Properties located in Tulufan and Xiangfan on 1 July 2013 and 10 July 2013 respectively. As at the Latest Practicable Date, the UIHHL Group has a portfolio of nine 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 and Buerjin. The aggregate gross floor area of the Hotel Properties is approximately 77,220 sq.m..

As at the Latest Practicable Date, the UIHHL Group had entered into two agreements to dispose of its investments in two Hotel Properties located in Wafangdian and Buerjin but such disposals have not yet been completed. Details of the aforesaid disposals are set out in the announcements of the Company dated 24 October 2012 and 31 May 2013 respectively. The disposal of the company holding the hotel property located in Buerjin has not been completed pending approval procedures of the local government authority. The Company does not foresee any legal impediment and expects completion to take place by end of September 2013. The physical handover of the hotel property located in Wafangdian has been completed and the consideration has been received in full. However, the disposal of the relevant property holding company has not been completed pending the settlement of inter-company loans by the purchaser. The Company does not foresee any legal impediment and expects completion to take place by end of February 2014.

LETTER FROM GOLDIN FINANCIAL

Set out below is a summary of the audited financial information of the UIHHL Group as extracted from the accountant's report on the UIHHL Group as set out in Appendix II to the Circular:

| | For the year ended 31 March | |
|---------------------|------------------------------------|----------------------|
| | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss before tax | 17,131 | 20,348 |
| Net loss after tax | 17,476 | 25,520 |
| | | As at |
| | | 31 March 2013 |
| | | <i>HK\$'000</i> |
| Net asset value | | 337,933 |

Set out below is a summary of the unaudited financial information of the UIHHL Group (excluding U Inns Xi'an):

| | For the year ended 31 March | |
|--|------------------------------------|----------------------|
| | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss before tax | 14,255 | 16,608 |
| Net loss after tax | 14,600 | 21,780 |
| | | As at |
| | | 31 March 2013 |
| | | <i>HK\$'000</i> |
| Net asset value | | 266,296 |
| Net asset value (assuming completion of the increase in the registered capital of U Inns Xi'an) | | 253,558 |

Based on the valuation report prepared by RHL as set out in Appendix IV to the Circular, the aggregate market value of the Remaining Hotel Properties as at 31 May 2013 (assuming the UIHHL Group is entitled to freely transfer the Hotel Properties located in Wuhan and Weifang) was RMB277.9 million (equivalent to approximately HK\$344.1 million).

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Taking into account the market value of the Remaining Hotel Properties as at 31 May 2013 and the consideration as stipulated under the relevant equity transfer agreements for the disposals of the companies holding the Hotel Properties located in Wafangdian, Tulufan, Buerjin and Xiangfan, the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 amounted to approximately HK\$346.0 million. The revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL amounted to approximately HK\$89.6 million.

U Inns Xi'an

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 approximately 14,172 sq.m. and has not commenced operation. Set out below is a summary of the financial information of U Inns Xi'an based on its unaudited accounts:

| | For the year ended 31 March | |
|--|------------------------------------|----------------------|
| | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net loss (before and after tax) | 2,876 | 3,740 |
| | | As at |
| | | 31 March 2013 |
| | | <i>HK\$'000</i> |
| Net asset value | | 71,637 |
| Net asset value (assuming completion of the increase in the registered capital of U Inns Xi'an) | | 84,374 |

Based on the valuation report prepared by RHL as set out in Appendix IV to the Circular, the market value of the Xi'an Hotel Property as at 31 May 2013 was RMB116.0 million (equivalent to approximately HK\$143.6 million).

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Assuming completion of the increase in the registered capital of U Inns Xi'an pursuant to the terms of the Asset Swap Agreement and taking into account the market value of the Xi'an Hotel Property as at 31 May 2013, the revalued 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 amounted to approximately HK\$92.6 million.

Set out below is the operating information of the Hotel Properties as at the Latest Practicable Date:

| Hotel Properties | Features | Gross floor area (sq.m.) | Operating status | Date of commencement of operation | Occupancy rate for the year ended 31 March 2013 |
|------------------|---|-----------------------------|--|-----------------------------------|---|
| Yingkou | 17-storey commercial building with one basement floor | 10,740 | Leased to two independent third parties | 21 September 2010 | 40.9% |
| Wuhan | 5-storey hotel with 83 guest rooms | 4,008 | Leased to one independent third parties | 10 October 2012 | 47.4% |
| Xi'an | 8-storey hotel with 314 guest rooms | 14,172 | Not yet commenced operation | N/A | N/A |
| Tonghua | 7-storey hotel with 118 guest rooms | 5,318 | Portion of the property is leased out to one independent third party | 12 December 2008 | 5.1% |
| Jinggangshan | 5-storey hotel with 202 guest rooms | 9,125 | Not yet commenced operation | N/A | N/A |
| Weifang | 7-storey hotel with 320 guest rooms | 14,404 | Not yet commenced operation | N/A | N/A |
| Ninghai | 7-storey hotel with 140 guest rooms | 6,647 | Not yet commenced operation | N/A | N/A |
| Buerjin | 4-storey hotel with 68 guest rooms | 3,068 | Not yet commenced operation | N/A | N/A |
| Wafangdian | 10-storey hotel with 246 guest rooms | 9,738 | Not yet commenced operation | N/A | N/A |

LETTER FROM GOLDIN FINANCIAL

3. Reasons for, and benefits of, entering into the Asset Swap Agreement

As disclosed in the Letter from the Board, the Group is engaged in hotel investment and management, and property 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 Latest Practicable Date, the UIHHL Group has entered into two agreements to dispose of its investments in two Hotel Properties but such disposals 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 as mentioned above, the UIHHL Group will own a total of six Remaining Hotel Properties located in Yingkou, Wuhan, Jinggangshan, Ninghai, Weifang and Tonghua, the PRC with an aggregate gross floor area of approximately 50,242 sq.m.. The Transaction is in effect an asset swap and does not involve any cashflow for the Group.

The Equity Transfer

As disclosed in the annual reports of the Company for the year ended 31 March 2011 (the “**Annual Report 2011**”), 31 March 2012 (the “**Annual Report 2012**”) and the Annual Report 2013, the Group has maintained its strategies of developing its properties into budget hotels or commercial offices for leasing or sale, or, when appropriate, outright sale. As stated in the Annual Report 2012, two properties were disposed in November 2011 and the Group recorded a gain on disposal of HK\$3.3 million. As disclosed in the Annual Report 2013, on 24 October 2012 and 8 February 2013, UIHK entered into agreements with two independent third parties to dispose of 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. The Group will realize, on completion, a total gain on the disposals of approximately HK\$3.2 million and HK\$3.8 million respectively. On 31 May 2013, UIHK, 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) 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) for the consideration of RMB24.9 million (equivalent to approximately HK\$31.4 million) and RMB9.3 million (equivalent to approximately

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HK\$11.7 million). The estimated gain before expenses and taxes from the disposals of “U” Inns & Hotels (Xiang Fan) Management Co., Limited and “U” Inns & Hotels (Bu Er Jin) Management Co., Limited 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. In view of the above, we noted that the Group has been restructuring its hotel property portfolio by outright sale when opportunities arise.

As advised by the management of the Company, the Xi’an Hotel Property was acquired by the Group in June 2007. The Group had sought for budget hotel operation, leasing or outright sale of such property since the acquisition in 2007. However, the Xi’an Hotel Property has not yet commenced operation and did not generate any revenue to the Group. U Inns Xi’an recorded a loss of approximately HK\$2.9 million and HK\$3.7 million for the year ended 31 March 2012 and 31 March 2013 respectively mainly attributed to depreciation of the hotel property, depreciation of land use rights and property tax.

Based on the accountant’s report on the UIHHL Group as set out in Appendix II to the Circular, the unaudited accounts of U Inns Xi’an as at 31 March 2013 and the valuation report on the Hotel Properties prepared by RHL as set out in Appendix IV to the Circular, it is estimated that the Group will realise a gain (before expenses and taxes) as a result of the Transaction of approximately HK\$27.1 million, being the difference between the revalued net asset value of the UIHHL Group (excluding U Inns Xi’an and assuming completion of the increase in the registered capital of U Inns Xi’an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL in the amount of approximately HK\$89.6 million and the carrying value of U Inns Xi’an as at 31 March 2013 (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi’an held by the Group in the amount of approximately HK\$62.5 million.

On the other hand, the Group is expected to record a debit to the other reserve account in the amount of approximately HK\$23.1 million, being (i) the difference of approximately HK\$26.9 million between the revalued net asset value of U Inns Xi’an (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi’an held by the Group in the amount of approximately HK\$92.6 million and the carrying value of the UIHHL Group (excluding U Inns Xi’an and assuming completion of the increase in the registered capital of U Inns Xi’an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL in the amount of approximately HK\$65.7 million; less (ii) the difference of approximately HK\$3.0 million between the revalued net asset value of the UIHHL Group (excluding U Inns Xi’an and assuming completion of the increase in the registered capital of U Inns Xi’an) as at 31 March 2013 attributable to 25.9% equity

LETTER FROM GOLDIN FINANCIAL

interest in UIHHL in the amount of approximately HK\$89.6 million and the revalued net asset value of U Inns Xi'an as at 31 March 2013 (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi'an held by the Group in the amount of approximately HK\$92.6 million; and less (iii) the translation difference of approximately HK\$0.8 million.

As a result, the shareholders' deficit of the Group is expected to improve by approximately HK\$4.0 million upon Completion. Shareholders should note that the actual amount of the gain or loss and the debit to the other 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.

As advised by the management of the Company, the Xi'an Hotel Property has a gross floor area of approximately 14,172 sq.m. and 314 guest rooms. Since the acquisition in 2007, no renovation has been made in the Xi'an Hotel Property. The Group estimated that it would not be less than HK\$35 million for renovation if such property is set up for leasing or for budget hotel operation. We are further advised by the management of the Company that the Xi'an Hotel Property was wholly-owned by a state-owned enterprise prior to the acquisition of such property by the Group. The change of ownership of a state-owned property from a state-owned enterprise to a private company requires the private company to pay for a land transfer tax to the relevant tax authority in the PRC for granting a license for commercial operation of such property. The Group had enquired the relevant tax authority in the PRC regarding the land transfer tax of the Xi'an Hotel Property and noted that it would not be less than RMB20 million (equivalent to approximately HK\$24.8 million). As at the Latest Practicable Date, the Group has not paid for such land transfer tax to obtain the license for commercial operation of the Xi'an Hotel Property. Having considered the net current liabilities position of the Group of approximately HK\$373.36 million as at 31 March 2013 and the estimated cost to be incurred if the Xi'an Hotel Property is set up for commercial operation, we are of the view that the Equity Transfer would allow the Group to immediately realise the gain from the investment in such property and avert substantial cash outflow for renovation and paying the land transfer tax of the property.

Having considered that (i) the Xi'an Hotel Property has not commenced operation and in a loss-making position since its acquisition in 2007; (ii) the sale of U Inns Xi'an is being in line with the Group's strategy of restructuring its hotel property portfolio; (iii) the expected improvement in shareholders' deficit upon Completion; and (iv) the Equity Transfer would allow the Group to immediately realise the gain from the investment in such property and avert substantial cash outflow for renovation and paying the land transfer tax of the property, we are of the view that the Equity Transfer is in the interests of the Company and the Shareholders as a whole.

LETTER FROM GOLDIN FINANCIAL

The acquisition of the UIHHL Shares

As disclosed in the Letter from the Board, after Completion and completion of all the disposals 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. As advised by the management of the Company, the hotel properties located in Wuhan and Yingkou have been leased out to independent third parties with a rental income of approximately HK\$1.2 million and approximately HK\$2.3 million for the year ended 31 March 2013 respectively, the total of which represented approximately 53% of the total revenue of the Group for the year ended 31 March 2013. As advised by the management of the Company, save for the land transfer tax which is estimated to be HK\$6.4 million and HK\$4.1 million for the hotel properties located in Weifang and Wuhan respectively, the Group had paid the land transfer tax for the Remaining Hotel Properties to the relevant tax authority in the PRC. The Group expects that the outstanding land transfer tax will be paid to the relevant tax authority by the end of 2013 and the Group will obtain all necessary certificates including the State-owned Land Uses Rights Certificate and the Building Ownership Certificate of the hotel properties located in Weifang and Wuhan after the payment of land transfer tax.

As advised by the management of the Company, the acquisition of the UIHHL Shares would allow the Group to capture the growth potential (including the capital appreciation of the remaining Hotel Properties) of the UIHHL Group, attributable to the additional 25.9% ownership of the UIHHL Group on one hand, and on the other hand the UIHHL Group could formulate its strategy and make decisions in a more timely and efficient manner without the need of negotiating with and obtaining consent from FSG after Completion. Taking into account the Group's strategies of developing its properties into budget hotels or commercial offices for leasing or sale, or, when appropriate, outright sale, we are of the view that after consolidating the shareholding of the UIHHL Group, prompt decision could be made to execute such strategy to capture the opportunities that would maximise the returns to the Shareholders when such opportunities arise.

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As disclosed in paragraphs headed “4. Financial and trading prospects of the Remaining Group” in Appendix I to the Circular, the Remaining Group intends to maintain its strategies of developing the six Remaining Hotel Properties into budget hotels or commercial offices for leasing or sales, or, when appropriate, outright sale. The Directors will assess the development potential of the Remaining Hotel Properties on an individual basis. If the rental rate represents a reasonable return, it is the intention of the Remaining Group to lease out the Remaining Hotel Properties. Otherwise, the Remaining Group will consider to develop and operate the Remaining Hotel Properties depending on the then market condition and prospects. The Remaining Group will also consider outright sale of the Remaining Hotel Properties subject to the then market price of the Remaining Hotel Properties.

The Remaining Group will continue to lease out the Hotel Properties located in Yingkou and Wuhan. For the Hotel Properties located in Weifang, Jinggangshan, Ninghai and Tonghua, the Remaining Group is negotiating with independent third parties for leasing, or, when appropriate, developing such properties for operation or outright sale. As at the Latest Practicable Date, save for the existing lease agreements in respect of the Hotel Properties located in Yingkou and Wuhan, the Remaining Group had not entered into any lease agreements nor have any concrete plan to operate, lease or dispose of the rest of the Remaining Hotel Properties.

The Remaining Group intends to conduct certain renovation works at the Hotel Properties located in Weifang and Jinggangshan for operation or leasing. The capital requirements for the renovation works are estimated to be approximately RMB10.2 million (equivalent to approximately HK\$11.4 million) and RMB8.2 million (equivalent to approximately HK\$10.2 million) respectively and will be funded by bank borrowings, if required.

The Remaining Group will also 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 interests in these industries. In selecting partners for joint ventures or partnership, the Remaining Group will mainly consider companies which operate budget hotel chain or mid-tier hotels whose target customers are civil servants. As at the Latest Practicable Date, the Remaining Group has not identified any such partnership opportunities.

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Despite that the UIHHL Group had a loss-making performance for the two years ended 31 March 2013, the Directors are of the view that the PRC'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. The Directors expect that a good development trend of the PRC's economy and constantly improvement in the investment environment are conducive to the Group for maintaining its strategies. At the same time, the Group will continue to focus on the PRC's tourism and real estate market conditions in order to seek better investment returns. The Directors are cautiously confident in the future development of the UIHHL Group taking into account the growth potential of the hotel industry of the PRC. In assessing the prospect of the hotel industry of the PRC, we have conducted research on the industry in the public domain and our findings are as followings:

With reference to the China Statistics Year Book 2012 issued by the National Bureau of Statistics of China in September 2012, the gross domestic product ("GDP") per capita of the PRC resident increased from RMB20,169 in 2007 to RMB35,181 in 2011, representing a compound annual growth rate ("CAGR") of approximately 11.77%. The number of domestic visitors in the PRC (in term of times of visits) increased from approximately 1.61 billion visits in 2007 to approximately 2.64 billion visits in 2011, representing a CAGR of approximately 10.40%. According to the World Economic Outlook Update issued by International Monetary Fund in July 2013, the GDP growth rate of the PRC was 7.8% in 2012 and is projected to be 7.8% and 7.7% in 2013 and 2014 respectively. In view of the increasing purchasing power of the PRC residents and the vast growing tourism as well as the projected growth of the PRC economy, we are of the view that the prospect of the hotel industry is optimistic in the PRC and the rental income derived from leasing of properties for hotel operation or commercial office as well as the value of the properties is expected to appreciate alongside with the PRC economy, and the acquisition of the UIHHL Shares would allow the Group to capture the growth potential (including the capital appreciation of the Remaining Hotel Properties) of the UIHHL Group on a wholly-owned basis.

Having considered that (i) the acquisition of the UIHHL Shares would allow the Group to capture the growth potential (including the capital appreciation of the remaining Hotel Properties) of the UIHHL Group, attributable to the additional 25.9% ownership of the UIHHL Group; and (ii) the UIHHL Group could formulate its strategy and make decisions in a more timely and efficient manner without the need of negotiating with and obtaining consent from FSG after Completion; we are of the view that the acquisition of the UIHHL Shares is in the interests of the Company and the Shareholders as a whole.

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Our view

We noted that FSG had completed the subscription of the Preferred Shares on 1 November 2009 and the Preferred Shares were automatically converted into the UIHHL Shares on 1 November 2012 in accordance with the terms of the Preferred Shares. Despite that the Asset Swap Agreement was entered into between the relevant parties eight months after the conversion of the Preferred Shares, having considered the above, we are of the view that the Transaction is fair and reasonable and in the interests of the Company and the Shareholders a whole.

4. Principal terms of the Asset Swap Agreement

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. Given that FSG has a 25.9% equity interest in U Inns Xi'an through its holding of the UIHHL Shares, the Transaction is in effect an asset swap whereby the Group exchanges 74.1% equity interest in U Inns Xi'an for 25.9% equity interest in UIHHL. 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 by an amount equivalent to the balance of 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) in order to enable U Inns Xi'an to repay such inter-company loans 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 and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL; (ii) the preliminary valuation of the Hotel Properties as at 31 May 2013 as indicated by RHL; and (iii) the net asset value of U Inns Xi'an as at 31 March 2013 (assuming completion of the increase in its registered capital) attributable to the 74.1% effective interest in U Inns Xi'an held by the Group.

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Set out below is the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL:

| | <i>HK\$'000</i> |
|--|----------------------|
| Carrying value | 253,558 |
| Valuation surplus (<i>Note 1</i>) | 64,758 |
| Disposal consideration less carrying value (<i>Note 2</i>) | <u>27,703</u> |
| Revalued net asset value | <u>346,019</u> |
| 25.9% of revalued net asset value | <u><u>89,619</u></u> |

Notes:

1. Being the difference between the aggregate market value of the Remaining Hotel Properties as at 31 May 2013 as assessed by RHL and the aggregate carrying value of the Remaining Hotel Properties as at 31 March 2013.
2. Being the difference between the consideration as stipulated under the relevant equity transfer agreements for the disposals of the companies holding the Hotel Properties located in Wafangdian, Tulufan, Buerjin and Xiangfan and their aggregate carrying value as at 31 March 2013. The relevant agreements were either entered into before 31 March 2013 but were not yet completed as of 31 March 2013, or were entered into after 31 March 2013.

Set out below is the revalued net asset value of U Inns Xi'an (assuming completion of the increase in its registered capital) as at 31 March 2013 attributable to the 74.1% effective interest in U Inns Xi'an held by the Group:

| | <i>HK\$'000</i> |
|-----------------------------------|----------------------|
| Carrying value | 84,374 |
| Valuation surplus (<i>Note</i>) | <u>40,631</u> |
| Revalued net asset value | <u>125,005</u> |
| 74.1% of revalued net asset value | <u><u>92,629</u></u> |

Note: Being the difference between the market value of the Xi'an Hotel Property as at 31 May 2013 as assessed by RHL and the carrying value of the Xi'an Hotel Property as at 31 March 2013.

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Based on the above, there is a difference of approximately HK\$3.0 million between the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL and U Inns Xi'an (assuming completion of the increase in its registered capital) as at 31 March 2013 attributable to the 74.1% effective interest in U Inns Xi'an held by the Group. Pursuant to the Asset Swap Agreement, such difference shall be disregarded and deemed waived such that none of the parties to the Asset Swap Agreement shall be required to make any cash payment to the others in connection with the Transaction.

The Valuation

Based on the Valuation Report, assuming the hotel property located in Wuhan is changed to grant land and the State-owned Land Use Rights Certificate and the Building Ownership Certificate of the hotel property located in Weifang have been obtained, the valuation (the "**Valuation**") of the Hotel Properties is RMB484.4 million (equivalent to approximately HK\$599.8 million), of which the valuation of the Xi'an Hotel Property is RMB116.0 million (equivalent to approximately HK\$143.6 million).

For our due diligence purpose, we have reviewed and enquired RHL's qualification and experience in relation to the performance of the Valuation. We noted that RHL has a handful of experience in performing valuation for transactions of listed companies as well as the initial public offering cases in Hong Kong and the PRC. RHL confirmed that it is an independent third party to the Company. RHL also confirmed that all relevant material information provided by the Company had been incorporated in the Valuation Report and there were no other material relevant information or representations relating to the UIHHL Group provided or made by the Company to RHL not having been included in the Valuation. In addition, we also reviewed the terms of RHL's engagement and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

The Valuation was prepared by RHL using the direct comparison method under the market approach. We have reviewed and enquired into RHL regarding the methodology of, and basis and assumptions adopted for, the Valuation. RHL explained that they have adopted the direct comparison method which involves making reference to the comparable properties as available and where appropriate, on the basis of capitalization of the net income shown on the documents provided by the Company. During our discussion with RHL, we understand how the Valuation was being derived and how the comparable properties of similar size, character and location were weighed against their respective advantages and drawbacks.

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RHL further confirmed that the valuation method they have adopted for the Valuation is commonly adopted for valuation of properties in the PRC, and is consistent with normal market practice. The Valuation has been carried out in accordance with “The HKIS Valuation Standards (2012 Edition)” published by The Hong Kong Institute of Surveyors. Having considered the above, we are of the view that the principal basis, valuation method and assumptions adopted for the Valuation are fair, reasonable and complete and hence we are satisfied with the reliability of the Valuation Report.

We have reviewed the information in relation to the Valuation provided by RHL and noted that the Valuation is made mainly with reference to the comparable properties. We were advised that RHL has selected the comparable properties based on the following criteria: (i) properties of similar type or usage to the respective subject properties; (ii) comparable properties located in the district of the respective subject properties, if there is no such comparable properties in that district, properties in the districts proximate to that subject property are selected; and (iii) comparable properties in the past six months, if there is no such comparable properties, in the past twelve months. We noted that the price per square metre on gross floor area basis selected for determining the market value of each of the subject properties falls into the range of that of the comparable properties. We also noted that the size in terms of gross floor area of the comparable properties is in general smaller than that of the subject properties. As advised by RHL, the size factor has been taken into account for determining the price per square metre of each of the subject properties and hence the market value of the Hotel Properties and it is a common market practice for property valuation to make such size factor adjustments.

Despite that the type, size and location of the comparable properties may not be identical to that of the subject properties, having considered that (i) the comparable properties are of similar type or usage to the respective subject properties; (ii) the location of the comparable properties is proximate to the respective subject properties; (iii) the comparable properties reflect the market value of such type of premises due to the fact that they were selected in the past six months; (iv) the price per square metre on gross floor area basis selected for determining the market value of each of the subject properties falls into the range of that of the comparable properties; and (v) the size factor has been taken into account in the Valuation, we are of the view that the Valuation is fair and reasonable.

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Our view

It is noted from the Valuation Report that RHL has not assigned any commercial value to the hotel properties located in Wuhan and Weifang due to the fact that the land use rights of the hotel property located in Wuhan has not been changed from allocated land to granted land and the UIHHL Group has not obtained the State-owned Land Uses Rights Certificate and the Building Ownership Certificate of the hotel property located in Weifang as at the date of the Valuation Report. However, if the hotel property located in Wuhan is changed to granted land and the State-owned Land Uses Rights Certificate and the Building Ownership Certificate of the hotel property located in Weifang have been obtained, the market value of the hotel properties located in Wuhan and Weifang would have been in the amount of RMB25.7 million and RMB54.4 million respectively. We noted that such market value of the hotel properties located in Wuhan and Weifang had been taken into account for determining the revalued net asset value of the UIHHL Group. Having considered that the Group expects the outstanding land transfer tax will be paid to the relevant tax authority by the end of 2013 and the Group will obtain all necessary certificates including the State-owned Land Uses Rights Certificate and the Building Ownership Certificate of the hotel properties located in Weifang and Wuhan after the payment of land transfer tax, we are of the view that for the purpose of determining the revalued net asset value of the UIHHL Group, it is appropriate to take into account the market value of the hotel property located in Wuhan and Weifang as if the hotel property located in Wuhan is changed to granted land and the State-owned Land Uses Rights Certificate and the Building Ownership Certificate of the hotel property located in Weifang have been obtained as at the date of the Valuation Report.

Taking into account the market values of the Remaining Hotel Properties as at 31 May 2013 and the consideration as stipulated under the relevant equity transfer agreements for the disposal of the companies holding the Hotel Properties located in Wafangdian, Tulufan, Buerjin and Xiangfan, the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 amounted to approximately HK\$346.0 million. The revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL amounted to approximately HK\$89.6 million. Assuming completion of the increase in the registered capital of U Inns Xi'an pursuant to the terms of the Asset Swap Agreement and taking into account the market value of the Xi'an Hotel Property as at 31 May 2013, the revalued net asset value of U Inns Xi'an as at 31 March 2013 attributable to the 74.1% equity interest in U Inns Xi'an held by the Group amounted to approximately HK\$92.6 million.

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Despite that the revalued net asset value of the UIHHL Group (excluding U Inns Xi'an and assuming completion of the increase in the registered capital of U Inns Xi'an) as at 31 March 2013 attributable to 25.9% equity interest in UIHHL represents a discount of approximately 3% to the revalued net asset value of U Inns Xi'an as at 31 March 2013 attributable to the 74.1% equity interest in U Inns Xi'an held by the Group and there would be no cash settlement for such discrepancy, having considered (i) the expected improvement in shareholders' deficit of the Group upon Completion; (ii) that the Equity Transfer would allow the Group to immediately realise the gain from the investment in the Xi'an Hotel Property and avert substantial cash outflow for renovation and paying the land transfer tax of the property if the Xi'an Hotel Property is set up for commercial operation; (iii) the cash outflow to be incurred by FSG if the Xi'an Hotel Property is set up for commercial operation; and (iv) the benefits of obtaining 100% control of the UIHHL Group to the Group as discussed in the section headed "3. Reasons for, and benefits of, entering into the Asset Swap Agreement" above, we are of the view that the terms of Asset Swap Agreement are normal commercial terms and fair and reasonable so far as the Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

5. Financial impacts of the Transaction

As disclosed in the Letter from the Board, upon Completion, UIHHL will become a wholly-owned subsidiary of the Company and the profit or loss of the UIHHL Group attributable to the Shareholders will be increased by 25.9%. The financial results of U Inns Xi'an will no longer be consolidated in the financial statements of the Remaining Group. As the Xi'an Hotel Property has not yet commenced operations, it is expected that there will be no material effect on the earnings of the Remaining Group.

(i) Total assets and liabilities

As disclosed in the Annual Report 2013, the Group recorded a total shareholder's deficit of approximately HK\$83.2 million and a non-controlling interest of approximately HK\$88.4 million. Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, assuming Completion had taken place on 31 March 2013, the total assets of the Remaining Group will be decreased by approximately HK\$103.9 million from approximately HK\$581.4 million to approximately HK\$477.5 million. The total liabilities of the Remaining Group will be decreased by approximately HK\$17.3 million from approximately HK\$576.3 million to HK\$559.0 million. Given that UIHHL will become a wholly-owned subsidiary of the Company, the non-controlling interest of the Group will be adjusted to nil upon Completion. As a result, the

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Group will record a total shareholder's deficit of approximately HK\$81.5 million, representing an improvement in total shareholder's deficit of approximately HK\$1.7 million taking into account the estimated amount of legal and professional fees and other expenses directly attributable to the Transaction of approximately HK\$2.3 million.

(ii) Liquidity

According to the Annual Report 2013, the bank balances and cash as at 31 March 2013 were approximately HK\$90.8 million. Given the Transaction will not involve any cash outlay of the Group (save for the payment of related expenses), the Transaction is not expected to have any adverse impact on the working capital position of the Group.

(iii) Gearing ratio

As at 31 March 2013, the gearing ratio of the Group was approximately 0.77 times, calculated based on the total borrowings (approximately HK\$448.4 million) over total assets (approximately HK\$581.4 million) as at 31 March 2013. Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, assuming the Transaction had taken place on 31 March 2013, the gearing ratio of the Group would have increased to approximately 0.94 times, calculated based on the total borrowings (approximately HK\$448.4 million) over total assets (approximately HK\$477.5 million) as at 31 March 2013.

RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for entering into the Asset Swap Agreement, in particular that:

- the Xi'an Hotel Property has not yet commenced operation and in a loss-making position since its acquisition in 2007;
- the Equity Transfer would allow the Group to immediately realise the gain from the investment in the Xi'an Hotel Property and avert substantial cash outflow for renovation and paying the land transfer tax if the Xi'an Hotel Property is set up for commercial operation;
- the sale of the U Inns Xi'an is being in line with the Group's strategy of restructuring its hotel property portfolio;

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- the acquisition of the UIHHL Shares would allow the Group to capture the growth potential (including the capital appreciation of the Remaining Hotel Properties) of the UIHHL Group attributable to the additional 25.9% ownership of the UIHHL Group;
- the UIHHL Group could formulate its strategy and make decisions in a more timely and efficient manner without the need of negotiating with and obtaining consent from FSG after Completion;
- the terms of Asset Swap Agreement are normal commercial terms; and
- the expected improvement in the shareholders' deficit upon Completion,

we are of the view that the entering into the Asset Swap Agreement is in the ordinary and usual course of business of the Company and the terms of the Asset Swap Agreement are normal commercial terms and the entering into the Asset Swap Agreement are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,
For and on behalf of
Goldin Financial Limited

Billy Tang
Director

* *for identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

The audited financial information of the Group for each of the three years ended 31 March 2011, 2012 and 2013 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.vxlcapital.com>) respectively:

- Annual report of the Company for the year ended 31 March 2013 dated 6 June 2013 (pages 38 to 126);
- Annual report of the Company for the year ended 31 March 2012 dated 22 June 2012 (pages 40 to 142); and
- Annual report of the Company for the year ended 31 March 2011 dated 22 June 2011 (pages 39 to 126).

2. INDEBTEDNESS

As at the close of business on 30 June 2013, being the latest practicable date for the purpose of this indebtedness statement, the Remaining Group had an amount due to the ultimate holding company of approximately HK\$459.7 million.

Save as disclosed above and apart from intra-group liabilities, the Remaining Group did not have any outstanding bank loans and overdrafts, mortgages, charges, debentures, loan capital and overdrafts or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances (other than normal trade bills), or acceptance credits, or any guarantees or other material contingent liabilities at the close of business on 30 June 2013.

3. WORKING CAPITAL

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

The Directors are of the opinion that, taking into account the financial resources available to the Remaining Group including the borrowings due to the ultimate holding company, the Remaining Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

The Remaining Group intends to maintain its strategies of developing the six Remaining Hotel Properties into budget hotels or commercial offices for leasing or sales, or, when appropriate, outright sale. The Directors will assess the development potential of the Remaining Hotel Properties on an individual basis. If the rental rate represents a reasonable return, it is the intention of the Remaining Group to lease out the Remaining Hotel Properties. Otherwise, the Remaining Group will consider to develop and operate the Remaining Hotel Properties depending on the then market condition and prospects. The Remaining Group will also consider outright sale of the Remaining Hotel Properties subject to the then market price of the Remaining Hotel Properties.

The Remaining Group will continue to lease out the Hotel Properties located in Yingkou and Wuhan. For the Hotel Properties located in Weifang, Jinggangshan, Ninghai and Tonghua, the Remaining Group is negotiating with independent third parties for leasing, or, when appropriate, developing such properties for operation or outright sale. As at the Latest Practicable Date, save for the existing lease agreements in respect of the Hotel Properties located in Yingkou and Wuhan, the Remaining Group had not entered into any lease agreements nor have any concrete plan to operate, lease or dispose of the rest of the Remaining Hotel Properties.

The Remaining Group intends to conduct certain renovation works at the Hotel Properties located in Weifang and Jinggangshan for operation or leasing thereafter. The capital requirements for the renovation works are estimated to be approximately RMB10.2 million (equivalent to approximately HK\$11.4 million) and RMB8.2 million (equivalent to approximately HK\$10.2 million) respectively and will be funded by bank borrowings, if required.

The Remaining Group will also 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 interests in these industries. In selecting partners for joint ventures or partnership, the Remaining Group will mainly consider companies which operate budget hotel chain or mid-tier hotels whose target customers are civil servants. As at the Latest Practicable Date, the Remaining Group has not identified any such partnership opportunities.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 March 2013 (being the date to which the latest published audited financial statements of the Group were made up).

I. ACCOUNTANT'S REPORT ON UIHHL GROUP

The following is the text of a report, received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

13 August 2013

The Directors
VXL Capital Limited

Dear Sirs,

We report on the financial information of U Inns & Hotels Holdings Limited (the "UIHHL") and its subsidiaries (together, the "UIHHL Group"), which comprises the consolidated statement of financial position of the UIHHL Group as at 31 March 2011, 2012 and 2013, the statement of financial position of the UIHHL as at 31 March 2011, 2012 and 2013, and the consolidated statement of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the UIHHL Group for each of the years ended 31 March 2011, 2012 and 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of VXL Capital Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 13 August 2013 (the "Circular") in connection with the proposed acquisition of 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 Fortune Sea Group Limited. The principal business activity of UIHHL and its subsidiaries is hotel investments in the PRC.

No audited financial statements have been prepared by UIHHL as it is not subject to statutory audit requirement under relevant rules and regulations in the jurisdiction on incorporation. The audited financial statements of the other companies comprising the UIHHL Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their respective places of incorporation. The information relating to the statutory auditors of these companies are set out in Note 17 of Section II.

The directors of UIHHL are responsible for the preparation of the consolidated financial statements of UIHHL and its subsidiaries comprising the UIHHL Group for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”), and for such internal control as the directors determined is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSAs”) issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2.1 of Section II below.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the “Group”) as set out in the annual report of the Company for the year ended 31 March 2013.

REPORTING ACCOUNTANT’S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of UIHHL as at 31 March 2011, 2012 and 2013 and of the consolidated state of affairs of the UIHHL Group as at 31 March 2011, 2012 and 2013 and of the UIHHL Group’s consolidated results and cash flows for the Relevant Periods then ended.

I. INFORMATION OF UIHHL GROUP

The following is the consolidated financial information of the UIHHL Group prepared by the directors of UIHHL as at 31 March 2011, 2012 and 2013 and for each of the years ended 31 March 2011, 2012 and 2013 (the “Financial Information”).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | 2011 | 2012 | 2013 |
|--|-------------|---------------------------|---------------------------|---------------------------|
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 5 | 4,401 | 6,436 | 6,627 |
| Other gains | 6 | 4,274 | 9,548 | 75 |
| Revaluation gain on investment properties | 15 | – | 979 | 4,085 |
| Staff costs | 7 | (10,419) | (8,699) | (7,592) |
| Depreciation and amortization | | (6,183) | (6,446) | (6,896) |
| Other operating expenses, net | | <u>(15,560)</u> | <u>(17,881)</u> | <u>(16,354)</u> |
| Operating loss | 8 | (23,487) | (16,063) | (20,055) |
| Finance income | 9 | 106 | 130 | 172 |
| Finance costs | 10 | <u>(1,889)</u> | <u>(1,198)</u> | <u>(465)</u> |
| Loss before taxation | | (25,270) | (17,131) | (20,348) |
| Taxation | 11 | <u>(3)</u> | <u>(345)</u> | <u>(5,172)</u> |
| Loss for the year | | <u>(25,273)</u> | <u>(17,476)</u> | <u>(25,520)</u> |
| Other comprehensive income: | | | | |
| Currency translation differences | | 17,643 | 17,043 | 997 |
| Property revaluation gain | | <u>–</u> | <u>12,026</u> | <u>6,968</u> |
| Other comprehensive income for the year, net of tax | | <u>17,643</u> | <u>29,069</u> | <u>7,965</u> |
| Total comprehensive (loss)/profit for the year | | <u><u>(7,630)</u></u> | <u><u>11,593</u></u> | <u><u>(17,555)</u></u> |
| Basic and diluted loss per ordinary share for loss for the year attributable to equity holders of the Company | 27 | <u><u>HK\$(3,411)</u></u> | <u><u>HK\$(2,358)</u></u> | <u><u>HK\$(3,007)</u></u> |

CONSOLIDATION STATEMENT OF FINANCIAL POSITION

| | <i>Note</i> | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|---------------------------------------|-------------|--------------------------------|--------------------------------|--------------------------------|
| Non-current assets | | | | |
| Property, plant and equipment | <i>13</i> | 253,451 | 245,180 | 203,435 |
| Land use rights | <i>14</i> | 82,762 | 66,909 | 51,322 |
| Investment properties | <i>15</i> | – | 93,758 | 128,405 |
| Construction in progress | <i>16</i> | 8,549 | 4,468 | 6,367 |
| Receivables, prepayments and deposits | <i>18</i> | <u>106,912</u> | <u>51,097</u> | <u>7,243</u> |
| | | <u>451,674</u> | <u>461,412</u> | <u>396,772</u> |
| Current assets | | | | |
| Receivables, prepayments and deposits | <i>18</i> | 1,652 | 1,733 | 3,447 |
| Bank balances and cash | <i>20</i> | <u>72,200</u> | <u>62,387</u> | <u>61,710</u> |
| | | 73,852 | 64,120 | 65,157 |
| Assets held for sale | <i>19</i> | <u>19,463</u> | <u>–</u> | <u>87,901</u> |
| | | <u>93,315</u> | <u>64,120</u> | <u>153,058</u> |
| Total assets | | <u><u>544,989</u></u> | <u><u>525,532</u></u> | <u><u>549,830</u></u> |

APPENDIX II
FINANCIAL INFORMATION OF THE UIHHL GROUP

| | <i>Note</i> | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|--------------------------------|
| Current liabilities | | | | |
| Payables and accruals | 21 | 68,778 | 44,984 | 104,876 |
| Liability component of compound financial instrument | 22 | 18,850 | 25,635 | – |
| Amounts due to fellow subsidiaries | 23 | 57,290 | 39,374 | 35,748 |
| Amount due to immediate holding company | 23 | 50,607 | 51,594 | 50,721 |
| | | <u>195,525</u> | <u>161,587</u> | <u>191,345</u> |
| Liability classified as held for sale | 19 | – | – | 749 |
| | | <u>195,525</u> | <u>161,587</u> | <u>192,094</u> |
| Net current (liabilities)/assets | | <u>(102,210)</u> | <u>(97,467)</u> | <u>(39,036)</u> |
| Total assets less current liabilities | | <u>349,464</u> | <u>363,945</u> | <u>357,736</u> |
| Non-current liabilities | | | | |
| Deferred income tax liabilities | 24 | – | 8,457 | 19,803 |
| Liability component of compound financial instrument | 22 | 5,569 | – | – |
| | | <u>5,569</u> | <u>8,457</u> | <u>19,803</u> |
| Total liabilities | | <u>201,094</u> | <u>170,044</u> | <u>211,897</u> |
| Net assets | | <u>343,895</u> | <u>355,488</u> | <u>337,933</u> |
| EQUITY | | | | |
| Share capital | 25 | 77 | 77 | 77 |
| Reserves | 26(a) | 343,818 | 355,411 | 337,856 |
| Total equity | | <u>343,895</u> | <u>355,488</u> | <u>337,933</u> |

STATEMENT OF FINANCIAL POSITION

| | Note | 2011 HK\$'000 | 2012 HK\$'000 | 2013 HK\$'000 |
|--|--------|------------------|------------------|------------------|
| Non-current assets | | | | |
| Interests in subsidiaries | 17 | # | # | # |
| | | — | — | — |
| Current assets | | | | |
| Amounts due from subsidiaries | 17, 23 | 504,469 | 503,832 | 477,640 |
| Amounts due from fellow subsidiaries | 23 | 15,361 | 15,307 | 15,303 |
| | | 519,830 | 519,139 | 492,943 |
| Current liabilities | | | | |
| Liability component of compound financial instrument | 22 | 18,850 | 25,635 | — |
| Amount due to immediate holding company | 23 | 50,338 | 50,478 | 50,497 |
| | | 69,188 | 76,113 | 50,497 |
| Net current assets | | 450,642 | 443,026 | 442,446 |
| Total assets less current liabilities | | 450,642 | 443,026 | 442,446 |
| Non-Current liability | | | | |
| Liability component of compound instrument | 22 | 5,569 | — | — |
| | | 5,569 | — | — |
| Net assets | | 445,073 | 443,026 | 442,446 |
| EQUITY | | | | |
| Share capital | 25 | 77 | 77 | 77 |
| Reserves | 26(b) | 444,996 | 442,949 | 442,369 |
| Total equity | | 445,073 | 443,026 | 442,446 |

Represented by HK\$4.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of UIHHL | | | | | | | Total HK\$'000 |
|--|---|--|---|--|---------------------------------|------------------------------------|-----------------------------------|-------------------|
| | Share capital- ordinary shares HK\$'000 | Share capital- preferred shares HK\$'000 | Share premium- ordinary shares HK\$'000 | Share premium- preferred shares HK\$'000 | Exchange reserve HK\$'000 | Revaluation reserve HK\$'000 | Accumulated losses HK\$'000 | |
| | | | | | | | | |
| At 31 March 2010 | 57 | 20 | 329,943 | 123,344 | 17,747 | - | (119,586) | 351,525 |
| Loss for the year | - | - | - | - | - | - | (25,273) | (25,273) |
| Other comprehensive income: | | | | | | | | |
| Translation exchange difference | - | - | - | - | 17,643 | - | - | 17,643 |
| Total comprehensive loss for the year | - | - | - | - | 17,643 | - | (25,273) | (7,630) |
| At 31 March 2011 | <u>57</u> | <u>20</u> | <u>329,943</u> | <u>123,344</u> | <u>35,390</u> | <u>-</u> | <u>(144,859)</u> | <u>343,895</u> |
| At 31 March 2011 | 57 | 20 | 329,943 | 123,344 | 35,390 | - | (144,859) | 343,895 |
| Loss for the year | - | - | - | - | - | - | (17,476) | (17,476) |
| Other comprehensive income: | | | | | | | | |
| Translation exchange difference | - | - | - | - | 17,043 | - | - | 17,043 |
| Deferred tax on revaluation increase | - | - | - | - | - | (8,116) | - | (8,116) |
| Property revaluation | - | - | - | - | - | 20,142 | - | 20,142 |
| Total comprehensive gain for the year | - | - | - | - | 17,043 | 12,026 | (17,476) | 11,593 |
| At 31 March 2012 | <u>57</u> | <u>20</u> | <u>329,943</u> | <u>123,344</u> | <u>52,433</u> | <u>12,026</u> | <u>(162,335)</u> | <u>355,488</u> |
| At 31 March 2012 | 57 | 20 | 329,943 | 123,344 | 52,433 | 12,026 | (162,335) | 355,488 |
| Loss for the year | - | - | - | - | - | - | (25,520) | (25,520) |
| Other comprehensive income: | | | | | | | | |
| Translation exchange difference | - | - | - | - | 997 | - | - | 997 |
| Deferred tax on revaluation increase | - | - | - | - | - | (6,050) | - | (6,050) |
| Property revaluation | - | - | - | - | - | 13,018 | - | 13,018 |
| Total comprehensive loss for the year | - | - | - | - | 997 | 6,968 | (25,520) | (17,555) |
| Transactions with owners | | | | | | | | |
| Conversion of preferred shares | 20 | (20) | 123,344 | (123,344) | - | - | - | - |
| Total transactions with owners | 20 | (20) | 123,344 | (123,344) | - | - | - | - |
| At 31 March 2013 | <u>77</u> | <u>-</u> | <u>453,287</u> | <u>-</u> | <u>53,430</u> | <u>18,994</u> | <u>(187,855)</u> | <u>337,933</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | <i>Note</i> | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|---|-------------|--------------------------------|--------------------------------|--------------------------------|
| Operating activities | | | | |
| Loss before taxation | | (25,270) | (17,131) | (20,348) |
| Adjustments for: | | | | |
| Finance costs | <i>10</i> | 1,889 | 1,198 | 465 |
| Depreciation and amortization | <i>8</i> | 6,183 | 6,446 | 6,896 |
| Gain on transfer of interest in properties before completion of acquisition | | – | (3,283) | – |
| Gain on disposal of property, plant and equipment | <i>6</i> | (4,250) | (968) | – |
| Gain on disposal of assets held of sale | <i>6</i> | – | (5,038) | – |
| Management fee recharged by a fellow subsidiary | <i>29</i> | 5,187 | 5,337 | 5,148 |
| Fair value gain on investment property | | – | (979) | (4,085) |
| Changes in working capital | | | | |
| Decrease/(increase) in receivables, prepayments and deposits | | 3,753 | 10,290 | (2,014) |
| Increase/(decrease) in payables and accruals | | (7,437) | (15,167) | 3,330 |
| Decrease/(increase) in amount due to related companies | | 3,088 | (5,337) | 2,621 |
| Net cash outflow from operations | | (16,857) | (24,632) | (7,987) |
| Income tax paid | | (3) | (4) | (7) |
| Net cash outflow from operating activities | | <u>(16,860)</u> | <u>(24,636)</u> | <u>(7,994)</u> |

APPENDIX II
FINANCIAL INFORMATION OF THE UIHHL GROUP

| | <i>Note</i> | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|--------------------------------|
| Investing activities | | | | |
| Purchase of property, plant and equipment and land use rights | | (10,283) | (8,218) | (8,928) |
| Payment of deposits for acquisition of hotel properties | | (7,392) | – | – |
| Additions of construction in progress | | (4,617) | (13,031) | (1,899) |
| Proceeds from disposal and refund from termination of acquisition contract for property, plant and equipment | | 101,230 | – | – |
| Proceeds from transfer of interest in properties before completion of acquisition | | – | 41,167 | – |
| Proceeds from disposal of properties classified as assets held for sale | | – | 12,583 | 56,782 |
| Net cash inflow from investing activities | | <u>78,938</u> | <u>32,501</u> | <u>45,955</u> |
| Financing activities | | | | |
| Amounts due to fellow subsidiaries | | – | (17,916) | (12,755) |
| Dividends paid to preferred shares holder | | – | – | (26,100) |
| Net cash outflow from financing activities | | <u>–</u> | <u>(17,916)</u> | <u>(38,855)</u> |
| Increase/(decrease) in cash and cash equivalents | | 62,078 | (10,051) | (894) |
| Cash and cash equivalents at 1 April | | 11,915 | 72,200 | 62,387 |
| Effect of foreign exchange rate changes | | (1,793) | 238 | 217 |
| Cash and cash equivalents at 31 March | <i>20</i> | <u><u>72,200</u></u> | <u><u>62,387</u></u> | <u><u>61,710</u></u> |

II NOTES TO THE FINANCIAL INFORMATION

1. General information

The principal activities of U Inns & Hotels Holdings Limited (the “UIHHL”) and its subsidiaries together (the “UIHHL Group”) are (i) hotel investment and operations and (ii) property investment, whilst those of its principal subsidiaries are set out in Note 17 to the Financial Information.

UIHHL is a limited liability company incorporated in the British Virgin Islands. The address of its registered office is at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong dollar (“HK\$”), unless otherwise stated.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial information are set out below and have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the UIHHL 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 Financial Information have been prepared under the historical cost convention, as modified by the revaluation of investment properties.

At 31 March 2013, the UIHHL Group had net current liabilities of HK\$39.0 million. In addition, during the years ended 31 March 2011, 2012 and 2013, the UIHHL Group reported a loss of HK\$25.3 million, HK\$17.5 million and HK\$25.5 million and a net operating cash outflow of HK\$16.9 million, HK\$24.6 million and HK\$8.0 million respectively. The above conditions indicate the existence of uncertainties which may cast doubt on the UIHHL Group's ability to continue as a going concern. Notwithstanding the above, the Financial Information are prepared on a going concern basis.

In order to alleviate the UIHHL Group's liquidity risk, management is implementing various measures to improve its cash flows. The UIHHL 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 ended 31 March 2013, the UIHHL 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 RMB16.2 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) was also received subsequent to 31 March 2013. On 31 May 2013, "U" Inns & Hotels Investment Limited (你的客棧酒店有限公司) ("UIHK"), a subsidiary of UIHHL, 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.

UIHHL Group was fully refunded for the deposits paid of RMB5.9 million for acquisition of the hotel property located in Chongqing City in July 2013 since the acquisition had been terminated in June 2013 as the registration of the transfer of the title of the hotel property has not been successfully completed.

As at 31 March 2013, the UIHHL Group had amounts due to VXL Capital Limited (“VXLCL”), the immediate holding company, totaling HK\$50.5 million. In July 2013, management has agreed with VXLCL who agreed not to demand for repayment in relation to the inter-company debt before 30 September 2014. Based on the UIHHL Group’s cash flow projection and taking into account the reasonably possible changes in the trading performance, the directors believe that the UIHHL 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, VXLCL has confirmed its intention to provide continuous financial support to the UIHHL Group so as to enable the UIHHL Group to meet all its liabilities and obligations as and when they fall due and to enable the UIHHL Group to continue its businesses for the foreseeable future. The directors believe VXLCL has the financial resources to provide such support. Accordingly, the directors are of the opinion that it is appropriate to prepare the Financial Information on a going concern basis.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the UIHHL Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by UIHHL

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

| | |
|----------------------|--|
| 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 UIHHL anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on Financial Information.

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

2.2 Consolidation

The Financial Information include the financial statements of UIHHL and all of its subsidiaries for the years ended 31 March 2011, 2012 and 2013.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the UIHHL Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the UIHHL Group controls another entity. The UIHHL Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the UIHHL Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between UIHHL Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the UIHHL Group.

(a) Disposal of subsidiaries

When the UIHHL Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the UIHHL Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of comprehensive income.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by UIHHL on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of UIHHL.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the UIHHL Group's entities are measured using Renminbi ("RMB"), which is the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information are presented in HK\$, which is the functional currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all the UIHHL Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance stated at statement of financial position presented are translated at the closing rate at the end of reporting period;

- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at exchange rates prevailing at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

(d) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the UIHHL Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of UIHHL are reclassified to the consolidated statement of comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the UIHHL Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | |
|----------------------------------|-------------|
| – Hotel properties | 20 years |
| – Furniture and fixtures | 3 – 5 years |
| – Office equipment and machinery | 3 – 5 years |
| – Computer and related equipment | 3 – 5 years |
| – Motor vehicles | 5 years |

Improvements are capitalized and depreciated over their expected useful lives to the UIHHL Group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each of the end of reporting period.

An impairment loss is recognised immediately to write down an asset's carrying amount to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are netted off or recognised within 'Other gains' in the consolidated statement of comprehensive income.

2.7 Land use rights

Land use rights which are prepayment of land leases stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration and directly attributable transaction costs paid or payable for the rights to use the land for periods between 30 and 50 years. Amortization of land use rights is calculated on the straight-line method over the period of the land use rights.

2.8 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the UIHHL Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each of the end of reporting period by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the UIHHL Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of a valuation gain or loss in “Other gains”.

If the use of a property changes from owner-occupied to being held for long-term rental yields or for capital appreciation or both, and that is not occupied by the UIHHL Group, it is reclassified as an investment property, measured at fair value at the date of reclassification and the difference between the fair value and the net book value of the investment property is recognised in the other comprehensive income.

2.9 *Non-current assets held for sale*

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.10 *Financial assets*

The UIHHL Group classifies its financial assets in the categories of loans and receivables. The UIHHL Group determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets. Loans and receivables are classified as 'Receivables, prepayments and deposits' and 'Bank balances and cash' in the consolidated statement of financial position (Notes 2.12 and 2.13). Loans and receivables are carried at amortized cost using the effective interest method.

2.11 Impairment of Receivables

Receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the UIHHL Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within 'Other operating expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'Other operating expenses' in the consolidated statement of comprehensive income.

2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and cash at bank.

2.13 Compound financial instruments

Compound financial instrument issued by UIHHL comprises preferred shares that are convertible to common shares, and the number of shares to be issued does not vary with changes in their fair values. The liability component of the compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method. The equity component of the compound financial instrument is not re-measured subsequent to initial recognition.

2.14 Current and deferred income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in consolidated statement of comprehensive income except to the extent that they relate to items recognised directly in consolidated statement of changes in equity, in which case they are recognised in consolidated statement of changes in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where UIHHL and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Taxation rates enacted or substantively enacted by the end of reporting period are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying value of the Group's investment properties will generally be realised by a combination of income (rental stream during the period of use) and capital (the consideration on the sale at the end of use). In jurisdictions where different tax rates exist for income and capital gains, the Group considers the planned recovery of the asset and how that affects the tax rate used in the calculation of the deferred tax. The deferred tax is then calculated based on the respective temporary differences and tax consequences arising from recovery through use and recovery through sale.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Provisions

Provisions are recognised when the UIHHL Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlements is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Share capital

Ordinary shares are classified as equity. Incidental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A liability is recognized for the estimated payment for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the UIHHL Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(c) *Pension obligations*

UIHHL's subsidiaries in the People's Republic of China ("PRC") are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions are based on a certain percentage of the salaries of the subsidiaries' employees.

The contributions are charged to the consolidated statement of comprehensive income in the period in which they relate.

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes.

Revenue is recognised when it is probable that the economic benefits will flow to the UIHHL Group and when the revenue can be measured reliably on the following bases:

- i) Income from hotel room rental, food and beverage and other services is recognised when the relevant services are provided.
- ii) Rental income receivable under operating leases is recognised on a straight-line basis over the lease term.
- iii) Interest income is recognised on a time proportion basis using the effective interest method.

2.19 Leasing (as the lessee)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The UIHHL Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The UIHHL Group as lessee

(a) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(b) Finance leases

Leases of assets where the UIHHL Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is recognised in the consolidated statement of comprehensive income over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period.

2.20 Contingent liabilities and contingent assets

A contingent asset or liability is a possible asset or obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the UIHHL Group.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow of economic resources occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. Financial risk management

3.1 Financial risk factors

The UIHHL Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk and interest rate risk. The UIHHL Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the UIHHL Group's financial performance. The UIHHL Group has not used any derivative financial instruments to hedge its risk exposures.

Risk management for UIHHL and its subsidiaries in PRC is carried out by the Executive Committee ("Excom"). Excom identifies, evaluates and monitors financial risk in close co-operation with the UIHHL Group's operating units. The UIHHL Group monitors the financial risk continuously to minimize the risk, such as foreign exchange risk, price risk, credit risk, liquidity risk, interest rate risk and cash management.

(a) *Foreign exchange risk*

The UIHHL Group's monetary assets, liabilities and transactions are principally denominated in HK dollars, United States dollars ("US dollars") and RMB. The UIHHL Group is exposed to foreign exchange risk arising from its investments which are located in the PRC. Considering that the exchange rate between HK dollars and US dollars is pegged, and that Renminbi is appreciating, the UIHHL Group believes its downside foreign exchange risk is minimal. The UIHHL Group does not use any derivative financial instruments to hedge its foreign exchange risk.

If RMB had strengthened/weakened by 5% against HK dollars, with all other variables held constant, post-tax loss for the years ended 31 March 2011, 2012 and 2013 would have been HK\$1.9 million, HK\$0.6 million and HK\$0.1 million higher/lower respectively. The movement in the profit or loss relates mainly as a result of foreign exchange gain/losses on translation of RMB denominated trade and other receivables and trade and other payables that affect revenues and other income and costs.

For the translation risk as at 31 March 2011, 2012 and 2013, if RMB had strengthened/weakened by 5% against HK dollars, with all other variables held constant, total equity would have been HK\$17.2 million, HK\$17.8 million and HK\$16.9 million higher/lower respectively.

(b) *Credit risk*

The UIHHL Group's credit risk is primarily attributable to receivables, investments and bank deposits. The exposures to these credit risks are monitored on an ongoing basis.

In respect of receivables, the UIHHL Group closely monitors the credit performances and prompt repayments from the counterparties. It has policies in place to review the recoverability of receivables on an ongoing basis and assess the adequacy of provision for impairment. Further quantitative data in respect of the UIHHL Group's exposure to credit risk arising from receivables, prepayments and deposits are disclosed in Note 18 to the Financial Information.

In respect of bank deposits, the UIHHL Group has diversified its exposures into different financial institutions. It has policies in place to assess the credit standing of the counterparties and financial institutions before the UIHHL Group invests its assets.

(c) Liquidity risk

The UIHHL Group maintains liquidity by a number of sources including shareholder's loan, orderly realisation of short-term financial assets, receivables and certain assets that the UIHHL Group considers appropriate and advantageous to dispose of. Equity and other long term financing including strategic partnerships, or strategic joint ventures are also considered by the UIHHL Group in its capital structuring. The UIHHL Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the UIHHL Group's available cash and other interest-bearing loans. The ultimate holding company of UIHHL, VXL Capital Limited has confirmed its intention to provide sufficient financial support to the UIHHL Group so as to enable the UIHHL Group to meet all its liabilities and obligations as and when they fall due and to enable the UIHHL Group to continue its business for the foreseeable future.

The UIHHL Group monitors rolling forecasts of its liquidity reserve which comprises borrowing facilities and cash and cash equivalents on the basis of expected cash flow.

The table below analyses the UIHHL Group's and UIHHL's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

| | Less than 1 year <i>HK\$'000</i> | Between 1 and 5 years <i>HK\$'000</i> |
|------------------------------------|---|--|
| Group | | |
| At 31 March 2011 | | |
| Liability component of compound | | |
| financial instrument | 18,850 | 7,250 |
| Payables and accruals | 68,551 | – |
| Amounts due to fellow subsidiaries | 57,290 | – |
| Amount due to immediate | | |
| holding company | 50,607 | – |
| At 31 March 2012 | | |
| Liability component of compound | | |
| financial instrument | 26,100 | – |
| Payables and accruals | 44,854 | – |
| Amounts due to fellow subsidiaries | 39,374 | – |
| Amount due to immediate | | |
| holding company | 51,594 | – |
| At 31 March 2013 | | |
| Payables and accruals | 104,808 | – |
| Amounts due to fellow subsidiaries | 35,748 | – |
| Amount due to immediate holding | | |
| company | 50,721 | – |
| Company | | |
| At 31 March 2011 | | |
| Liability component of compound | | |
| financial instrument | 18,850 | 7,250 |
| Amount due to immediate | | |
| holding company | 50,338 | – |

| | Less than 1 year <i>HK\$'000</i> | Between 1 and 5 years <i>HK\$'000</i> |
|---|--|---|
| At 31 March 2012 | | |
| Liability component of compound financial instrument | 26,100 | – |
| Amount due to immediate holding company | 50,478 | – |
| At 31 March 2013 | | |
| Amount due to immediate holding company | 50,497 | – |

Note: Accrued employee benefits are excluded in this table.

(d) *Interest rate risk*

The UIHHL Group's interest rate risk arises from bank deposits and borrowings. The UIHHL Group monitors and limits its interest rate risk exposure through management of maturity profile, currency mix and choice of fixed and floating interest rates.

The UIHHL Group does not have significant cash flow interest rate risk as it has no interest-bearing assets at floating rates. Borrowings bearing interest at fixed rates expose the UIHHL Group to fair value interest rate risk. The UIHHL Group manages its interest rate exposure of borrowings with a focus on reducing the overall cost of debt.

The UIHHL Group currently does not use any interest rate derivative contracts or other financial instruments to hedge against its interest rate risk exposure.

3.2 Capital risk management

The capital structure of the UIHHL Group consists of owner's equity and debts, which include borrowings, bank balances and cash and equity attributable to equity holders of UIHHL which comprises the issued share capital and accumulated losses.

The UIHHL Group's objectives when managing capital are to safeguard the UIHHL Group's ability to continue to provide returns for shareholders and to support the UIHHL Group's stability and growth. The UIHHL Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economics conditions.

4. Critical accounting estimates and judgments

In the process of applying the accounting policies described in Note 2 above, the UIHHL Group has made the following judgments that have the most significant effect on the amounts recognised in the Financial Information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the UIHHL Group's assets and liabilities within the next financial year are disclosed below.

4.1 Critical accounting estimates

(a) Useful lives of property, plant and equipment

The UIHHL Group determines the estimated useful lives and depreciation rates for its property, plant and equipment. The UIHHL Group will revise the depreciation rates where useful lives are different to previous estimation, or it will write off or write down the value of those assets which are technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

It is the UIHHL Group's policy to recognize deferred tax assets for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized, based on all available evidence. Recognition primarily depends on the UIHHL Group's expectation of future taxable profit that will be available against which tax losses can be utilized. The details of the assessment are disclosed in Note 24.

4.2 Critical accounting judgement

(a) Classification as investment properties and owner-occupied properties

The Management of the UIHHL Group determines whether the acquired hotel properties qualify as investment properties. If the property would be classified as investment property, the property would be measured using fair value model. In making its judgment, the UIHHL Group considers whether the property generates cash flows largely independent of the other assets held by

an entity and the level of ancillary services provided to the tenants. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

(b) *Impairment of assets*

The UIHHL Group tests at least annually whether assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

5. Turnover and segment information

The UIHHL 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 UIHHL 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 and (ii) hotel operations.

| | 2011 | 2012 | 2013 |
|-------------------------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue from hotel operations | 4,401 | 3,941 | 3,147 |
| Rental income | — | 2,495 | 3,480 |
| | <u>4,401</u> | <u>6,436</u> | <u>6,627</u> |

The UIHHL Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the UIHHL 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.

Capital expenditures comprise additions to investment property (*Note 15*), property, plant and equipment (*Note 13*), land use rights (*Note 14*) and construction in progress (*Note 16*). 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.

Segment result represents the profit earned/(loss) resulted by each segment without allocation of central administration costs, finance income, finance cost, gain on disposal of subsidiary and taxation.

The segment results, depreciation and amortisation, and capital expenditure based on reportable segments for the years ended 31 March 2011, 2012 and 2013 are as follows:

| | Property investment | Hotel operations | The UIHHL Group |
|--|--------------------------------|----------------------------------|----------------------------|
| | <i>HK\$'000</i> | <i>(Note)</i> <i>HK\$'000</i> | <i>HK\$'000</i> |
| For the year ended 31 March 2011 | | | |
| Segment revenue: | | | |
| Sales to external customers | – | 4,401 | 4,401 |
| Segment results | – | (23,487) | (23,487) |
| Finance income | – | 106 | 106 |
| Finance costs | – | (1,889) | (1,889) |
| Loss before taxation | – | (25,270) | (25,270) |
| Taxation | – | (3) | (3) |
| Loss for the year | – | (25,273) | (25,273) |
| Other segment information | | | |
| Depreciation and amortization | – | 6,183 | 6,183 |
| Gain on disposal of property, plant and equipment | – | 4,250 | 4,250 |
| Additions to | | | |
| – Property, plant and equipment | – | 45,527 | 45,527 |
| – Land use rights | – | 15,096 | 15,096 |
| – Construction in progress | – | 4,617 | 4,617 |

| | Property investment | Hotel operations | The UIHHL Group |
|--|--------------------------------|----------------------------------|----------------------------|
| | <i>HK\$'000</i> | <i>(Note)</i> <i>HK\$'000</i> | <i>HK\$'000</i> |
| For the year ended 31 March 2012 | | | |
| Segment revenue: | | | |
| Sales to external customers | 2,495 | 3,941 | 6,436 |
| Segment results | (147) | (15,916) | (16,063) |
| Finance income | 4 | 126 | 130 |
| Finance costs | – | (1,198) | (1,198) |
| Loss before taxation | (143) | (16,988) | (17,131) |
| Taxation | (345) | – | (345) |
| Loss for the year | (488) | (16,988) | (17,476) |
| Other segment information | | | |
| Depreciation and amortization | 106 | 6,340 | 6,446 |
| Fair value gain on investment property | 979 | – | 979 |
| Gain on disposal of property, plant and equipment | – | 968 | 968 |
| Gain on transfer of interest in properties before completion of acquisition | – | 3,283 | 3,283 |
| Gain on disposal of assets held for sale | – | 5,038 | 5,038 |
| Additions to | | | |
| – Property, plant and equipment | 3,365 | 36,744 | 40,109 |
| – Construction in progress | 13,031 | – | 13,031 |

| | Property investment | Hotel operations | The UIHHL Group |
|--|--------------------------------|----------------------------------|----------------------------|
| | <i>HK\$'000</i> | <i>(Note)</i> <i>HK\$'000</i> | <i>HK\$'000</i> |
| For the year ended 31 March 2013 | | | |
| Segment revenue: | | | |
| Sales to external customers | 3,480 | 3,147 | 6,627 |
| Segment results | 2,563 | (22,618) | (20,055) |
| Finance income | 12 | 160 | 172 |
| Finance costs | – | (465) | (465) |
| Profit/(loss) before taxation | 2,575 | (22,923) | (20,348) |
| Taxation | (5,168) | (4) | (5,172) |
| Loss for the year | (2,593) | (22,927) | (25,520) |
| Other segment information | | | |
| Depreciation and amortization | 250 | 6,646 | 6,896 |
| Fair value gain on investment properties | 4,085 | – | 4,085 |
| Additions to | | | |
| – Property, plant and equipment | – | 53,084 | 53,084 |
| – Construction in progress | 1,899 | – | 1,899 |

Note:

Hotel operations segment included hotels which have not been in operations as at 31 March 2011, 2012 and 2013. Revenue of hotel operations segment were solely generated from the hotel in Xiang Fan during the years ended 31 March 2011, 2012 and 2013.

Information about major customers

For the years ended 31 March 2012 and 2013, revenue of approximately HK\$1.7 million and HK\$2.1 million was derived from Customer A in the property investment segment. For the year ended 31 March 2013, revenue of approximately HK\$1.0 million was derived from Customer B in the property investment segment. No other single customer contributed 10% or more to the UIHHL Group's revenue for years ended 31 March 2011, 2012 and 2013.

The segment assets and liabilities based on reportable segments as at 31 March 2011, 2012 and 2013 are as follows:

| | Property investment <i>HK\$'000</i> | Hotel operations <i>HK\$'000</i> | The UIHHL Group <i>HK\$'000</i> |
|---|---|--|---|
| At 31 March 2011 | | | |
| Segment assets | – | 472,789 | 472,789 |
| Bank balances and cash | – | 72,200 | 72,200 |
| | <u>–</u> | <u>72,200</u> | <u>72,200</u> |
| Total assets | – | 544,989 | 544,989 |
| | <u>–</u> | <u>544,989</u> | <u>544,989</u> |
| Segment liabilities | – | 93,197 | 93,197 |
| Amounts due to fellow subsidiaries | – | 57,290 | 57,290 |
| Amount due to immediate holding company | – | 50,607 | 50,607 |
| | <u>–</u> | <u>50,607</u> | <u>50,607</u> |
| Total liabilities | – | 201,094 | 201,094 |
| | <u>–</u> | <u>201,094</u> | <u>201,094</u> |
| At 31 March 2012 | | | |
| Segment assets | 106,422 | 356,723 | 463,145 |
| Bank balances and cash | 1,751 | 60,636 | 62,387 |
| | <u>106,422</u> | <u>60,636</u> | <u>62,387</u> |
| Total assets | 108,173 | 417,359 | 525,532 |
| | <u>108,173</u> | <u>417,359</u> | <u>525,532</u> |
| Segment liabilities | 32,009 | 47,067 | 79,076 |
| Amounts due to fellow subsidiaries | – | 39,374 | 39,374 |
| Amount due to immediate holding company | – | 51,594 | 51,594 |
| | <u>–</u> | <u>51,594</u> | <u>51,594</u> |
| Total liabilities | 32,009 | 138,035 | 170,044 |
| | <u>32,009</u> | <u>138,035</u> | <u>170,044</u> |

APPENDIX II
FINANCIAL INFORMATION OF THE UIHHL GROUP

| | Property investment <i>HK\$'000</i> | Hotel operations <i>HK\$'000</i> | The UIHHL Group <i>HK\$'000</i> |
|--|---|--|---|
| At 31 March 2013 | | | |
| Segment assets | 133,557 | 354,563 | 488,120 |
| Bank balances and cash | <u>6,363</u> | <u>55,347</u> | <u>61,710</u> |
| Total assets | <u><u>139,920</u></u> | <u><u>409,910</u></u> | <u><u>549,830</u></u> |
| Segment liabilities | 28,804 | 96,624 | 125,428 |
| Amounts due to fellow subsidiaries | – | 35,748 | 35,748 |
| Amount due to immediate holding company | <u>–</u> | <u>50,721</u> | <u>50,721</u> |
| Total liabilities | <u><u>28,804</u></u> | <u><u>183,093</u></u> | <u><u>211,897</u></u> |

The UIHHL Group's businesses operate in the People's Republic of China (excluding Hong Kong) (the "PRC"). The UIHHL Group's revenue from external customers for the years ended 31 March 2011, 2012 and 2013 and non-current assets as at 31 March 2011, 2012 and 2013 based on geographical area are as follows:

| | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Revenue from external customers | | | |
| Hong Kong | – | – | – |
| PRC | <u>4,401</u> | <u>6,436</u> | <u>6,627</u> |
| | <u><u>4,401</u></u> | <u><u>6,436</u></u> | <u><u>6,627</u></u> |
| Non-current assets | | | |
| Hong Kong | – | – | – |
| PRC | <u>451,674</u> | <u>461,412</u> | <u>396,772</u> |
| | <u><u>451,674</u></u> | <u><u>461,412</u></u> | <u><u>396,772</u></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.

6. Other gains

| | 2011 | 2012 | 2013 |
|---|---------------------|---------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Gain on disposal of property, plant and equipment | 4,250 | 968 | – |
| Gain on disposal of assets held for sale | – | 5,038 | – |
| Gain on transfer of interest in properties before completion of acquisition | – | 3,282 | – |
| Other gains | <u>24</u> | <u>260</u> | <u>75</u> |
| | <u><u>4,274</u></u> | <u><u>9,548</u></u> | <u><u>75</u></u> |

7. Staff costs

(a) Staff costs of the UIHHL Group are analyzed as follows:

| | 2011 | 2012 | 2013 |
|--|----------------------|---------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other short-term employee benefits | 9,088 | 7,329 | 6,369 |
| Provision of unutilized annual leave | 23 | – | – |
| Social security costs (<i>Note i</i>) | <u>1,308</u> | <u>1,370</u> | <u>1,223</u> |
| | <u><u>10,419</u></u> | <u><u>8,699</u></u> | <u><u>7,592</u></u> |

(b) None of the directors of UIHHL received or will receive any fees or emoluments in respect of their services to UIHHL during the years ended 31 March 2011, 2012 and 2013.

(c) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the UIHHL Group for the Relevant Periods are employees of the UIHHL Group. The details of the emoluments payable to the employees during the years ended 31 March 2011, 2012 and 2013 are presented below:

| | 2011 | 2012 | 2013 |
|-------------------------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other short-term | | | |
| employee benefits | 3,313 | 3,959 | 3,179 |
| Pension costs | 104 | 127 | 132 |
| | <u>3,417</u> | <u>4,086</u> | <u>3,311</u> |

| | Number of individuals | | |
|-------------------------------|------------------------------|-------------|-------------|
| | 2011 | 2012 | 2013 |
| Emoluments band | | | |
| HK\$1 – HK\$500,000 | 4 | 3 | 4 |
| HK\$500,001 – HK\$1,000,000 | – | 1 | – |
| HK\$1,000,001 – HK\$1,500,000 | – | – | – |
| HK\$1,500,001 – HK\$2,000,000 | 1 | 1 | 1 |
| HK\$2,000,001 – HK\$2,500,000 | – | – | – |
| | <u>–</u> | <u>–</u> | <u>–</u> |

Notes:

- (i) All employees of the subsidiaries of UIHHL 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 UIHHL 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.

8. Operating loss

| | 2011 | 2012 | 2013 |
|---|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Operating loss is arrived at after charging/(crediting): | | | |
| Legal and professional fee | 527 | 128 | 295 |
| Depreciation and amortization | 6,183 | 6,446 | 6,896 |
| Auditors' remuneration | 300 | 415 | 570 |
| Net exchange loss/(gain) | 111 | 1,484 | (1,157) |
| Office rental | 863 | 860 | 588 |
| Direct operating expenses attributable to operating lease | — | — | 20 |
| | <u>—</u> | <u>—</u> | <u>20</u> |

9. Finance income

| | 2011 | 2012 | 2013 |
|----------------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank interest income | <u>106</u> | <u>130</u> | <u>172</u> |
| | <u>106</u> | <u>130</u> | <u>172</u> |

10. Finance costs

| | 2011 | 2012 | 2013 |
|--|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on convertible preferred shares | <u>1,889</u> | <u>1,198</u> | <u>465</u> |

11. Taxation

No provision for Hong Kong profits tax has been made for the Relevant Periods as the UIHHL Group has no assessable profit during the Relevant Periods. Taxation on PRC profits has been calculated on the estimated assessable profit for the underlying years at the rates of taxation in the PRC.

The provision of deferred income tax on fair value gain on appreciated investment properties recovered through sale, has been made according to the requirement set forth in the relevant PRC tax laws and regulation.

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

| | 2011 | 2012 | 2013 |
|-------------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current tax – PRC | 3 | 4 | 7 |
| Deferred taxation | <u>–</u> | <u>341</u> | <u>5,165</u> |
| | <u>3</u> | <u>345</u> | <u>5,172</u> |

The tax on the UIHHL Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated companies as follows:

| | 2011 | 2012 | 2013 |
|--|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss before income taxation | (25,270) | (17,131) | (20,348) |
| Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions | (5,586) | (4,216) | 422 |
| Tax effect of non-deductible expenses | 205 | 497 | 77 |
| Tax effect of non-taxable revenue | (151) | (32) | (25) |
| Deferred tax assets not recognised | 5,535 | 3,840 | 3,644 |
| Provision for land appreciation tax | – | 341 | 1,406 |
| Current income tax effect on land appreciation tax | – | (85) | (352) |
| | <u>3</u> | <u>345</u> | <u>5,172</u> |

12. Loss for the year attributable to equity holders of UIHHL

The loss for the year attributable to equity holders of UIHHL is dealt with in the financial statements of UIHHL to the extent of a loss of HK\$2,444,000, HK\$2,047,000 and HK\$580,000 for the years ended 31 March 2011, 2012 and 2013 respectively.

13. Property, plant and equipment

| | Hotel properties <i>HK\$'000</i> | Furniture and fixtures <i>HK\$'000</i> | Office equipment and machinery <i>HK\$'000</i> | Computer and related equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|---|--|--|--------------------------------------|--------------------------|
| Cost | | | | | | |
| At 1 April 2010 | 222,466 | 11,287 | 7,031 | 1,314 | 430 | 242,528 |
| Additions | 41,480 | 147 | 208 | 3,692 | – | 45,527 |
| Disposals | (11,494) | (156) | (1,822) | – | (26) | (13,498) |
| Reclassified as assets held for sale (Note 19) | (14,067) | – | – | – | – | (14,067) |
| Exchange difference | 10,451 | 421 | 266 | 144 | 18 | 11,300 |
| At 31 March 2011 | 248,836 | 11,699 | 5,683 | 5,150 | 422 | 271,790 |
| Accumulated depreciation | | | | | | |
| At 1 April 2010 | 4,969 | 7,097 | 2,840 | 319 | 154 | 15,379 |
| Charge for the year | 1,608 | 1,126 | 1,005 | 353 | 79 | 4,171 |
| Disposals | (410) | (62) | (837) | – | (25) | (1,334) |
| Reclassified as assets held for sale (Note 19) | (501) | – | – | – | – | (501) |
| Exchange difference | 246 | 179 | 164 | 28 | 7 | 624 |
| At 31 March 2011 | 5,912 | 8,340 | 3,172 | 700 | 215 | 18,339 |
| Net book value | | | | | | |
| At 31 March 2011 | 242,924 | 3,359 | 2,511 | 4,450 | 207 | 253,451 |

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| | Hotel properties <i>HK\$'000</i> | Furniture and fixtures <i>HK\$'000</i> | Office equipment and machinery <i>HK\$'000</i> | Computer and related equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|--|--|--------------------------------------|--------------------------|
| Cost | | | | | | |
| At 1 April 2011 | 248,836 | 11,699 | 5,683 | 5,150 | 422 | 271,790 |
| Additions | 40,031 | 78 | – | – | – | 40,109 |
| Disposals | (7,505) | – | (2) | (34) | – | (7,541) |
| Reclassified as investment properties (<i>Note</i>) | (46,635) | – | – | – | – | (46,635) |
| Exchange difference | 9,715 | 296 | 223 | 201 | 17 | 10,452 |
| At 31 March 2012 | <u>244,442</u> | <u>12,073</u> | <u>5,904</u> | <u>5,317</u> | <u>439</u> | <u>268,175</u> |
| Accumulated depreciation | | | | | | |
| At 1 April 2011 | 5,912 | 8,340 | 3,172 | 700 | 215 | 18,339 |
| Charge for the year | 1,447 | 985 | 1,076 | 637 | 83 | 4,228 |
| Disposals | (147) | – | (43) | – | – | (190) |
| Exchange difference | 138 | 176 | 260 | 35 | 9 | 618 |
| At 31 March 2012 | <u>7,350</u> | <u>9,501</u> | <u>4,465</u> | <u>1,372</u> | <u>307</u> | <u>22,995</u> |
| Net book value | | | | | | |
| At 31 March 2012 | <u><u>237,092</u></u> | <u><u>2,572</u></u> | <u><u>1,439</u></u> | <u><u>3,945</u></u> | <u><u>132</u></u> | <u><u>245,180</u></u> |

| | Hotel properties <i>HK\$'000</i> | Furniture and fixtures <i>HK\$'000</i> | Office equipment and machinery <i>HK\$'000</i> | Computer and related equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|--|--|--------------------------------------|--------------------------|
| Cost | | | | | | |
| At 1 April 2012 | 244,442 | 12,073 | 5,904 | 5,317 | 439 | 268,175 |
| Additions | 53,058 | 20 | – | 6 | – | 53,084 |
| Reclassified as investment properties (<i>Note</i>) | (9,831) | – | – | – | – | (9,831) |
| Reclassified as assets held for sale (<i>Note 19</i>) | (86,659) | (4,977) | – | – | – | (91,636) |
| Exchange difference | 899 | 46 | 22 | 20 | 2 | 989 |
| At 31 March 2013 | 201,909 | 7,162 | 5,926 | 5,343 | 441 | 220,781 |
| Accumulated depreciation | | | | | | |
| At 1 April 2012 | 7,350 | 9,501 | 4,465 | 1,372 | 307 | 22,995 |
| Charge for the year | 1,526 | 960 | 1,111 | 649 | 83 | 4,329 |
| Reclassified as investment properties (<i>Note</i>) | (195) | – | – | – | – | (195) |
| Reclassified as assets held for sale (<i>Note 19</i>) | (6,164) | (3,728) | – | – | – | (9,892) |
| Exchange difference | 35 | 42 | 21 | 9 | 2 | 109 |
| At 31 March 2013 | 2,552 | 6,775 | 5,597 | 2,030 | 392 | 17,346 |
| Net book value | | | | | | |
| At 31 March 2013 | 199,357 | 387 | 329 | 3,313 | 49 | 203,435 |

Note:

During the years ended 31 March 2012 and 2013, property, plant and equipment with respective net book value of HK\$46,635,000 and HK\$9,636,000 were reclassified as investment properties with a fair value gain before taxes of HK\$2,536,000 and HK\$1,000,000 respectively, being credited to the other comprehensive income.

14. Land use rights

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

| | 2011 | 2012 | 2013 |
|---|----------------------|----------------------|----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost | | | |
| At 1 April | 83,696 | 87,979 | 73,970 |
| Additions | 15,096 | – | – |
| Disposals | (8,268) | (8,899) | – |
| Reclassification | | | |
| Assets held for sale (<i>Note 19</i>) | (6,363) | – | (6,909) |
| Investment properties (<i>Note</i>) | – | (8,547) | (8,057) |
| Exchange difference | <u>3,818</u> | <u>3,437</u> | <u>88</u> |
| At 31 March | <u>87,979</u> | <u>73,970</u> | <u>59,092</u> |
| Accumulated amortization | | | |
| At 1 April | 3,906 | 5,217 | 7,061 |
| Charge for the year | 2,012 | 2,218 | 2,567 |
| Disposals | (555) | (600) | – |
| Reclassification | | | |
| Assets held for sale (<i>Note 19</i>) | (466) | – | (998) |
| Investment properties (<i>Note</i>) | – | – | (890) |
| Exchange difference | <u>320</u> | <u>226</u> | <u>30</u> |
| At 31 March | <u>5,217</u> | <u>7,061</u> | <u>7,770</u> |
| Net book value | | | |
| At 31 March | <u><u>82,762</u></u> | <u><u>66,909</u></u> | <u><u>51,322</u></u> |

The UIHHL Group's interests in land use rights at their net book values are analyzed as follows:

| | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|----------------------------------|-------------------------|-------------------------|-------------------------|
| Outside Hong Kong, held on: | | | |
| Leases of less than 10 years | – | – | – |
| Leases of between 10 to 50 years | <u>82,762</u> | <u>66,909</u> | <u>51,322</u> |
| | <u><u>82,762</u></u> | <u><u>66,909</u></u> | <u><u>51,322</u></u> |

Note:

During the years ended 31 March 2012 and 2013, land use rights with respective net book value of HK\$8,547,000 and HK\$7,167,000 was reclassified as investment properties with a fair value gain before taxes of HK\$17,605,000 and HK\$12,172,000 respectively being credited to the other comprehensive income.

15. Investment properties

| | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|-------------------------|
| At fair value | | | |
| Opening balance at 1 April | – | – | 93,758 |
| Reclassified from property, plant and equipment | – | 49,171 | 10,636 |
| Reclassified from land use rights | – | 26,152 | 19,339 |
| Reclassified from construction In progress | – | 17,446 | – |
| Increase in value credited to profit and loss | – | 979 | 4,085 |
| Exchange difference | <u>–</u> | <u>10</u> | <u>587</u> |
| At 31 March | <u><u>–</u></u> | <u><u>93,758</u></u> | <u><u>128,405</u></u> |

The UIHHL 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 2012 and 2013 has been arrived on the basis of valuation carried out on the date by RHL Appraisal Limited, independent qualified professional valuers not connected to the UIHHL Group. The valuation was arrived at by reference to market evidence of transaction prices for similar property at similar location.

(b) Leasing arrangements

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

16. Construction in progress

| | UIHHL Group | | |
|--------------------------------------|---------------------|---------------------|---------------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 April | 4,302 | 8,549 | 4,468 |
| Additions | 4,617 | 13,031 | 1,899 |
| Sales of properties | (382) | – | – |
| Refunded | (173) | – | – |
| Transfer to investment properties | – | (17,446) | – |
| Reclassified to assets held for sale | – | – | – |
| Exchange difference | 185 | 334 | – |
| | <u>8,549</u> | <u>4,468</u> | <u>6,367</u> |
| At 31 March | <u><u>8,549</u></u> | <u><u>4,468</u></u> | <u><u>6,367</u></u> |

17. Interests in subsidiaries

| | 2011 | UIHHL 2012 | 2013 |
|-------------------------------------|-------------------|-------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets: | | | |
| Unlisted shares at cost | # | # | # |
| | <u> </u> | <u> </u> | <u> </u> |
| Current assets: | | | |
| Amounts due from subsidiaries | 504,469 | 503,832 | 447,640 |
| Less: provision for impairment loss | <u> </u> | <u> </u> | <u> </u> |
| | <u>504,469</u> | <u>503,832</u> | <u>447,640</u> |

Represented by HK\$4.

Note:

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand. The carrying values of the amounts due from subsidiaries approximate their fair value. The amounts due from subsidiaries as at 31 March 2011, 2012 and 2013 were all denominated in RMB.

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The following is a list of principal subsidiaries at 31 March 2011, 2012 and 2013. Principal subsidiaries are those subsidiaries that are active and have commenced operations.

| Name | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operations | Particulars of issued share capital/registered capital and debt securities | Interest held | | | Note |
|---|--|---|--|---------------|------|------|------|
| | | | | 2011 | 2012 | 2013 | |
| Chong Qing "U" Inns & Hotels Management Co., Limited [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$875,000 | 100% | 100% | 100% | (a) |
| Proper Class Limited | Hong Kong | Investment holding in Hong Kong | 1 ordinary share of HK\$1 | 100% | 100% | 100% | (b) |
| Sun Shell Limited | Hong Kong | Investment holding in Hong Kong | 1 ordinary share of HK\$1 | 100% | 100% | 100% | (b) |
| Superior Fortune Investments Limited | Hong Kong | Investment holding in Hong Kong | 1 ordinary share of HK\$1 | 100% | 100% | 100% | (b) |
| "U" Inns & Hotels Investment Limited | Hong Kong | Investment holding in Hong Kong | 1 ordinary share of HK\$1 | 100% | 100% | 100% | (b) |
| "U" Inns & Hotels (Bu Er Jin) Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$1,390,000 | 100% | 100% | 100% | (c) |
| "U" Inns & Hotels (Dun Huang) Management Limited [△] | PRC, limited liability company | Inactive | Registered capital of US\$3,700,000 | 100% | 100% | 100% | (a) |
| "U" Inns & Hotel (Jing Gang Shan Shi) Limited [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of HK\$48,630,000 | 100% | 100% | 100% | (d) |
| "U" Inns & Hotels (Long Nan) Management Co., Ltd. [△] | PRC, limited liability company | Inactive | Registered capital of RMB18,500,000 | 100% | 100% | 100% | (a) |
| "U" Inns & Hotels (Ninghai) Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$5,705,000 | 100% | 100% | 100% | (e) |

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| Name | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operations | Particulars of issued share capital/registered capital and debt securities | Interest held | | | Note |
|--|--|---|--|---------------|------|------|------|
| | | | | 2011 | 2012 | 2013 | |
| U Inns & Hotel (Sichuan) Limited [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$10,500,000 | 100% | 100% | 100% | (a) |
| “U” Inns & Hotels (Tong Hua) Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$2,249,600 | 100% | 100% | 100% | (f) |
| “U” Inns (Wafangdian) Hotel Management Co., Limited [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of HK\$28,000,000 | 100% | 100% | 100% | (g) |
| “U” Inns & Hotels (Tu Lu Fan) Management Co., Limited [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$1,770,000 | 100% | 100% | 100% | (h) |
| “U” Inns & Hotel (WeiFang) Limited [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$4,550,000 | 100% | 100% | 100% | (i) |
| “U” Inns & Hotels (Wu Han) Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$956,980 | 100% | 100% | 100% | (a) |
| “U” Inns & Hotels (Xi An) Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$10,100,000 | 100% | 100% | 100% | (j) |
| “U” Inns & Hotels (Xiang Fan) Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of US\$2,949,000 | 100% | 100% | 100% | (a) |
| “U” Inns (Yingkou) Hotel Management Co., Ltd. [△] | PRC, limited liability company | Hotel investment in PRC | Registered capital of HK\$25,650,000 | 100% | 100% | 100% | (k) |
| “U” Inns Hospitality Management (Shanghai) Co. Limited [△] | PRC, limited liability company | Management and consulting in PRC | Registered capital of US\$1,166,030 | 100% | 100% | 100% | (l) |
| “U” Inns & Hotels Information Technology (Shanghai) Limited [△] | PRC, limited liability company | Management and consulting in PRC | Registered capital of US\$755,000 | 100% | 100% | 100% | (l) |
| “U” Inns Investment Management (Shanghai) Limited [△] | PRC, limited liability company | Management and consulting in PRC | Registered capital of US\$2,000,000 | 100% | 100% | 100% | (l) |

* *Shares held directly by UIHHL.*

△ *The English names of these companies referred to above in this note represent management’s best efforts in translating the Chinese names of these companies as no English names have been registered or available.*

No statutory audited financial statements have been prepared for UIHHL which is incorporated in the BVI where there is no statutory audit requirement. The companies that have statutory audited financial statements and the name of the statutory auditors are as follows:

- (a) The statutory financial statements of these companies for the years ended 31 December 2011, 2012 and 2013 were audited by Sichuan SanHe Certified Public Accountants Co. Ltd.*
- (b) The statutory financial statements of these companies for the years ended 31 December 2011 and 2013 were audited by PricewaterhouseCoopers and for the year ended 31 December 2012 were audited by Pan- China (H.K.) CPA Limited.
- (c) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Xinjiang RiuTong Certified Public Accountants Co. Ltd.*
- (d) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Jiangxi JinLuLing Certified Public Accountants Co. Ltd.*
- (e) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Ningbo RoDa Certified Public Accountants Co. Ltd.*
- (f) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Tonghua MingYi Certified Public Accountants Co. Ltd.*
- (g) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Dalian LianSheng Certified Public Accountants Co. Ltd.*

- (h) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Xinjiang RuiTong Certified Public Accountants Co. Ltd.*
- (i) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Weifang JinCheng Certified Public Accountants Co. Ltd.*
- (j) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Xian ChangXing Certified Public Accountants Co. Ltd.*
- (k) The statutory financial statements of this company for the years ended 31 December 2011, 2012 and 2013 were audited by Yingkou ZhongKeHua Certified Public Accountants Co. Ltd.*
- (l) The statutory financial statements of these companies for the years ended 31 December 2011, 2012 and 2013 were audited by Shanghai JinRui Certified Public Accountants Co. Ltd.*

* The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

18. Receivables, prepayments and deposits

| | UIHHL Group | | |
|---|-----------------------|----------------------|----------------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current | | | |
| Deposits for acquisition of hotel properties | 106,912 | 51,097 | 7,243 |
| | <u>106,912</u> | <u>51,097</u> | <u>7,243</u> |
| Current | | | |
| Trade receivables | 215 | 43 | 107 |
| Other receivables | 1,111 | 1,261 | 2,923 |
| Other prepayments and deposits | 326 | 429 | 417 |
| | <u>1,652</u> | <u>1,733</u> | <u>3,447</u> |
| | <u><u>108,564</u></u> | <u><u>52,830</u></u> | <u><u>10,690</u></u> |

A significant part of the UIHHL 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 2011, 2012 and 2013, the trade receivables are aged within two 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 Relevant Periods.

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 2011, 2012 and 2013, none of the receivables, prepayments and deposits was impaired. Management is of the opinion that there is no indication of impairment noted for the Relevant Periods.

The carrying amounts of the UIHHL Group's receivables, prepayments and deposits are denominated in RMB.

19. Assets held for sale and liabilities classified as held for sale

On 27 January 2011, the U Inns & Hotel (Si Chuan) Limited (part of the hotel investment of operations segment), an indirect wholly-owned subsidiary of the Company, entered into an agreement with a third party to dispose of the hotel properties located in the cities of Yilong and Langzhong, Sichuan province at a consideration of RMB11.7 million (equivalent to approximately HK\$13.9 million) and RMB9.8 million (equivalent to approximately HK\$11.6 million) respectively. The transaction is completed in the year ended 31 March 2012.

On 24 October 2012 and 8 February 2013, the U Inns & Hotels Investment Limited, an indirect wholly-owned subsidiary of UIHHL, 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, which 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 gain on the disposals of approximately HK\$3.2 million and HK\$3.8 million respectively. The disposal of the equity interest in “U” Inns & Hotels (Tu Lu Fan) Management Co., Limited is completed in July 2013 with no outstanding consideration. The completion date for the disposal of the equity interest in “U” Inns (Wafangdian) Hotel Management Co., Limited is expected by February 2014.

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 as held for sale following the approval of the UIHHL Group’s management in March 2013. Equity transfer agreements were entered subsequently as disclosed in Note 30 to the Financial Information. The disposal of the equity interest in “U” Inns Hotels (Xiang Fan) Management Co., Limited is completed in July 2013 with no outstanding consideration. The completion date for the disposal of the equity interest in “U” Inns & Hotels (Bu Er Jin) Management Co., Limited is expected by September 2013.

The carry amounts of the hotel properties, land use right and other assets and liabilities were reclassified as “Assets held for sale” in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discounted Operations”.

| | 2011 | 2012 | 2013 |
|---|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Assets | | | |
| At 1 April | – | 19,463 | – |
| Reclassified from property, plant and equipment (<i>Note 13</i>) | 13,566 | – | 81,744 |
| Reclassified from land use rights (<i>Note 14</i>) | 5,897 | – | 5,911 |
| Reclassified from construction-in-progress (<i>Note 16</i>) | – | – | – |
| Disposals | – | (19,463) | – |
| Exchange difference | – | – | 246 |
| | <u>–</u> | <u>–</u> | <u>246</u> |
| At 31 March | <u>19,463</u> | <u>–</u> | <u>87,901</u> |
| Liabilities | | | |
| At 1 April | – | – | – |
| Reclassified from payables and accruals | – | – | 749 |
| | <u>–</u> | <u>–</u> | <u>749</u> |
| At 31 March | <u>–</u> | <u>–</u> | <u>749</u> |

The operating result of the above hotels for the year ended 31 March 2013 were included under “hotel operations” segment as disclosed in Note 5 to the Financial Information.

20. Bank balances and cash

| | UIHHL Group | | |
|--------------------------------|--------------------|-----------------|-----------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank balances and cash on hand | <u>72,200</u> | <u>62,387</u> | <u>61,710</u> |

The carrying amounts of the bank balances and cash are denominated in the following currencies:

| | UIHHL Group | | |
|-----------------------|--------------------|-----------------|-----------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong dollars | 7,149 | 12,632 | 8,707 |
| Renminbi | 28,408 | 30,525 | 43,555 |
| United States dollars | <u>36,643</u> | <u>19,230</u> | <u>9,448</u> |
| | <u>72,200</u> | <u>62,387</u> | <u>61,710</u> |

21. Payables and accruals

| | UIHHL Group | | |
|---|--------------------|-----------------|-----------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables (<i>Note a</i>) | 222 | 159 | 133 |
| Property acquisition cost payable | 2,681 | 1,119 | 1,604 |
| Temporary receipts for return of properties and sales of properties | 23,295 | – | – |
| Accrued expenses in respect of acquisitions of hotel properties | 37,315 | 29,000 | 30,450 |
| Other payables and accruals | 5,265 | 14,706 | 15,379 |
| Temporary receipts for disposal of subsidiaries | <u>–</u> | <u>–</u> | <u>57,310</u> |
| | <u>68,778</u> | <u>44,984</u> | <u>104,876</u> |

The carrying amounts of the payables and accruals are denominated in Renminbi.

- (a) As at 31 March 2011, 2012 and 2013, trade payables of HK\$210,000, HK\$57,000 and HK\$77,000 were aged within one month respectively, while HK\$12,000, HK\$102,000 and HK\$56,000 were aged between one and three months respectively.

22. Conversion of preferred shares into common shares

On 28 October 2009, UIHHL has entered into 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 proceeds of the subscription were settled partially by setting off against the loans advanced to the UIHHL 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. The equity component is presented as “Share capital-preferred shares” in the consolidated statement of changes in equity.

On 1 November 2012, FSG 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.

| | UIHHL Group <i>HK\$'000</i> |
|--|---------------------------------------|
| Proceeds of issue | 145,000 |
| Liability component | <u>(21,636)</u> |
| Share Premium at 31 March 2011 and 2012 | 123,364 |
| Preferred shares converted into ordinary shares | <u>(20)</u> |
| Share Premium at 31 March 2013 | <u><u>123,344</u></u> |
| Liability component at 30 April 2010 | 22,525 |
| Interest expenses for the year ended 31 March 2011 | <u>1,894</u> |
| Liability component at 31 March 2011 | 24,419 |
| Interest expenses for the year ended 31 March 2012 | <u>1,216</u> |
| Liability component at 31 March 2012 | 25,635 |
| Interest expenses for the year ended 31 March 2013 | 465 |
| Repayment | <u>(26,100)</u> |
| Liability component at 31 March 2013 | <u><u>-</u></u> |

At 31 March 2011, 2012 and 2013, the UIHHL Group's liability component of compound financial instrument were repayable as follows:

| | UIHHL Group | | |
|--|--------------------|-----------------|-----------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 1 year – current portion | 18,850 | 25,635 | – |
| Between 1 and 5 years – non-current portion | 5,569 | – | – |
| | <u>24,419</u> | <u>25,635</u> | <u>–</u> |

23. Amounts due from/(to) immediate holding company, subsidiaries and fellow subsidiaries

The amounts due from/(to) immediate holding company, subsidiaries and fellow subsidiaries are unsecured, interest-free and repayable on demand. The amounts are denominated in RMB.

24. Deferred tax assets and liabilities

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the years are as follows:

| | Fair value change of investment properties <i>HK\$'000</i> |
|---|--|
| At 1 April 2010 | |
| (Charged)/credited to the consolidated statement of comprehensive income | — |
| At 31 March 2011 | — |
| At 1 April 2011 | — |
| Credit/(charged) to the consolidated statement of comprehensive income | (341) |
| Charged to other comprehensive income | (8,116) |
| At 31 March 2012 | (8,457) |
| At 1 April 2012 | (8,457) |
| Credit/(charged) to the consolidated statement of comprehensive income | (5,165) |
| Charged to other comprehensive income | (6,050) |
| Exchange difference | (131) |
| At 31 March 2013 | (19,803) |

APPENDIX II FINANCIAL INFORMATION OF THE UIHHL GROUP

Unrecognised deferred tax assets are as follows:

| | 2011 | 2012 | 2013 |
|-----------------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unutilized tax losses | <u>28,722</u> | <u>32,747</u> | <u>35,936</u> |

The deferred tax assets on the UIHHL Group's unutilized tax losses of approximately HK\$127.5 million, HK\$144.8 million and HK\$157.9 million as at 31 March 2011, 2012 and 2013, which can be carried forward against future taxable income, have not been recognised due to the unpredictability of future profit streams.

The unrecognized tax losses will expire as follows:

| | As at 31 March | | |
|---------------------|-----------------------|-----------------|-----------------|
| | 2011 | 2012 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| With no expiry date | 37,006 | 40,682 | 41,627 |
| Expiry on 31 March | | | |
| 2013 | – | – | – |
| 2014 | 44,775 | 42,703 | 41,858 |
| 2015 | 29,674 | 27,628 | 26,727 |
| 2016 | 16,015 | 15,712 | 15,771 |
| After 2016 | <u>–</u> | <u>18,094</u> | <u>31,913</u> |

25. Share capital

| | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|-------------------------|
| Authorized: | | | |
| 30,000 ordinary shares of US\$1.00 each | 233 | 233 | 233 |
| 20,000 preferred shares of US\$1.00 each | <u>155</u> | <u>155</u> | <u>155</u> |
| | <u>388</u> | <u>388</u> | <u>388</u> |
| Issued and fully paid: | | | |
| 9,999 (31 March 2011 and 2012: 7,409) ordinary shares of US\$1.00 each | 57 | 57 | 77 |
| Nil (31 March 2011 and 2012: 2,590) preferred shares of US\$1.00 each | <u>20</u> | <u>20</u> | <u>–</u> |
| | <u>77</u> | <u>77</u> | <u>77</u> |

During the year ended 31 March 2013, 2,590 preferred shares were converted into 2,590 ordinary shares of US\$1.00 each.

26. Reserves

(a) The UIHHL Group

| | Share premium ordinary shares <i>HK\$'000</i> | Share premium- preferred shares <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Revaluation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------------|---|---|--|---|--|--------------------------|
| At 1 April 2010 | 329,943 | 123,344 | 17,747 | – | (119,586) | 351,448 |
| Translation exchange difference | – | – | 17,643 | – | – | 17,643 |
| Loss for the year | – | – | – | – | (25,273) | (25,273) |
| At 31 March 2011 | 329,943 | 123,344 | 35,390 | – | (144,859) | 343,818 |
| Translation exchange difference | – | – | 17,043 | – | – | 17,043 |
| Loss for the year | – | – | – | – | (17,476) | (17,476) |
| Deferred tax on revaluation increase | – | – | – | (8,116) | – | (8,116) |
| Property revaluation | – | – | – | 20,142 | – | 20,142 |
| At 31 March 2012 | 329,943 | 123,344 | 52,433 | 12,026 | (162,335) | 355,411 |
| Translation exchange difference | – | – | 997 | – | – | 997 |
| Loss for the year | – | – | – | – | (25,520) | (25,520) |
| Deferred tax on revaluation increase | – | – | – | (6,050) | – | (6,050) |
| Property revaluation | – | – | – | 13,018 | – | 13,018 |
| Conversion of preferred shares | 123,344 | (123,344) | – | – | – | – |
| At 31 March 2013 | 453,287 | – | 53,430 | 18,994 | (187,855) | 337,856 |

(b) UIHHL

| | Share premium ordinary shares <i>HK\$'000</i> | Share premium- preferred shares <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------|---|---|--|--------------------------|
| At 1 April 2010 | 329,943 | 123,344 | (5,847) | 447,440 |
| Loss for the year | – | – | (2,444) | (2,444) |
| At 31 March 2011 | 329,943 | 123,344 | (8,291) | 444,996 |
| Loss for the year | – | – | (2,047) | (2,047) |
| At 31 March 2012 | 329,943 | 123,344 | (10,338) | 442,949 |
| Loss for the year | – | – | (580) | (580) |
| Conversion of preferred shares | 123,344 | (123,344) | – | – |
| At 31 March 2013 | 453,287 | – | (10,918) | 442,369 |

27. Basic and diluted loss per ordinary share for loss for the year attributable to equity holders of UIHHL

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

| | 2011 | 2012 | 2013 |
|---|-------------|-------------|-------------|
| Loss for the year attributable to equity holders of UIHHL, HK\$'000 | (25,273) | (17,476) | (25,520) |
| Weighted average number of ordinary shares in issue | 7,409 | 7,409 | 8,485 |
| Basic loss per ordinary share, HK\$ | 3,411 | 2,358 | 3,007 |

- b) The calculation of diluted loss per ordinary share is based on the loss for the year attributable to equity holders of UIHHL and the weighted average number of ordinary shares used, which is the same for calculating basic loss per ordinary share above, as UIHHL did not have any dilutive potential ordinary shares arising from share options during the Relevant Periods.

The preferred shares issued by UIHHL have no potentially dilutive effect to the ordinary shares of UIHHL for the Relevant Periods.

28. Commitments

*(a) Lease commitments**(i) Operating lease commitments – where the UIHHL Group is the lessor*

At 31 March 2011, 2012 and 2013, the UIHHL Group had contracted with tenants for the following minimum lease receivables:

| | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|-------------------------|
| Not later than 1 year | – | 3,980 | 4,922 |
| Later than 1 year and not later than 5 years | – | 18,326 | 19,687 |
| Over five years | – | 22,021 | 17,462 |
| | <u>–</u> | <u>44,327</u> | <u>42,071</u> |

Operating lease receivables represent future aggregate minimum lease receipts by the UIHHL Group from non-cancellable operating leases of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of ten to eleven years.

(ii) Operating lease commitments – where the UIHHL Group is the lessee

At 31 March 2011, 2012 and 2013, the UIHHL Group had commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

| | 2011 <i>HK\$'000</i> | 2012 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|-------------------------|
| Not later than 1 year | 885 | 331 | 430 |
| Later than 1 year and not later than 5 years | 421 | – | – |
| | <u>1,306</u> | <u>331</u> | <u>430</u> |

(b) Capital commitments

As at 31 March 2011, 2012 and 2013, the UIHHL Group has commitment in relation to acquisition of hotel properties from China Post Group and the outstanding commitment amounted to HK\$7.4 million, HK\$7.6 million and HK\$0.8 million respectively.

Other than those mentioned above, the UIHHL Group has commitments in respect of refurbishment costs for HK\$11.0 million, HK\$4.9 million and HK\$6.0 million as at 31 March 2011, 2012 and 2013.

29. Related party transactions

The UIHHL Group is controlled by the Company, which owns 74.1% of the UIHHL's shares. The remaining 25.9% of the UIHHL's shares are held by FSG.

The following transactions were carried out with related parties:

(a) Purchases of services

| | 2011 HK\$'000 | 2012 HK\$'000 | 2013 HK\$'000 |
|--|------------------|------------------|------------------|
| Management fee recharged by a fellow subsidiary | 5,187 | 5,337 | 5,148 |

(b) Key management compensation

| | 2011 HK\$'000 | 2012 HK\$'000 | 2013 HK\$'000 |
|---|------------------|------------------|------------------|
| Directors' fee | – | – | – |
| Salaries and other short-term benefits | 1,869 | 1,948 | 1,526 |
| | <u>1,869</u> | <u>1,948</u> | <u>1,526</u> |

30. Subsequent events

On 31 May 2013, “U” Inns & Hotels Investment Limited (你的客棧酒店有限公司) (“UIHK”), a subsidiary of UIHHL, 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 parties will also repay the entire inter-company debts owed by Xiangfan 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.

On 4 July 2013, the Company, UIHK and Fortune Sea Group Limited (“FSG”) entered into the Asset Swap Agreement pursuant to which UIHHL conditionally agreed to acquire, and FSG conditionally agreed to dispose of, the UIHHL Shares excluding Xi’an Shares. The consideration payable for the UIHHL Shares will be satisfied by way of transfer of the Xi’an Shares from UIHK to FSG. The following are assets and liabilities, excluding inter-company loans, of “U” Inns & Hotels (Xi’an) Hotel Management Company Limited (“U Inns Xi’an”) as at 31 March 2013.

| | 2013 |
|-------------------------------|-----------------|
| | <i>HK\$’000</i> |
| Assets | |
| Property, plant and equipment | 76,703 |
| Land use rights | 26,302 |
| Construction-in-progress | 449 |
| Bank balances and cash | 506 |
| | <u>103,960</u> |
| Liabilities | |
| Payables and accruals | 19,586 |
| | <u>19,586</u> |

Amongst the hotel properties classified as assets held for sale as at 31 March 2013, those located in Tu Lu Fan, Wafangdian and Bu Er Jin have not commenced hotel operations. For the hotel property held by U Inns Xi'an, it has not commenced hotel operation as at 31 March 2013.

On 26 June 2013, UIHHL Group terminated the acquisition of a hotel property located in Chongqing City. The consideration of approximately RMB5.9 million paid by UIHHL Group for the acquisition had been fully refunded in July 2013.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by UIHHL or its subsidiaries in respect of any period subsequent to 31 March 2013 and up to the date of this report. No dividend or distribution has been declared or made by UIHHL or its subsidiaries in respect of any period subsequent to 31 March 2013.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 March 2013

Business review

UIHHL Group is principally engaged in hotel investment and operation, and property investment in the PRC.

During the year ended 31 March 2013 (“FY2013”), UIHHL Group maintained its strategies of developing its properties into budget hotels or commercial offices for leasing or sales, or, when appropriate, outright sale. UIHHL Group continued 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 interests in these industries.

For FY2013, UIHHL Group’s operating hotel located in Xiangfan, Hubei province contributed hotel rental income and food & beverage (“F&B”) revenue of approximately HK\$2.7 million and HK\$0.4 million respectively, compared with the year ended 31 March 2012 (“FY 2012”) of approximately HK\$3.5 million of hotel rental income and approximately HK\$0.4 million of F&B revenue.

UIHHL Group’s office building located in Yingkou, Liaoning Province contributed office rental income of approximately HK\$2.3 million, while its property located in Wuhan, Hubei Province commenced its leasing operations in October 2012 and contributed rental income of approximately HK\$1.2 million.

Results

For FY2013, UIHHL Group recorded a turnover in the amount of approximately HK\$6.6 million, representing an increase of approximately 3.1% as compared with approximately HK\$6.4 million for FY2012. Turnover for FY2013 comprised rental income, hotel rental income and F&B revenue of approximately HK\$3.5 million, HK\$2.7 million and HK\$0.4 million respectively. For FY2012, rental income, hotel rental income and F&B revenue were approximately HK\$2.5 million, HK\$3.5 million and HK\$0.4 million, respectively.

For FY2013, UIHHL Group recorded revaluation gain on its investment properties of approximately HK\$4.1 million as compared with approximately HK\$1.0 million for FY2012.

For FY2013, UIHHL Group recorded a net loss of approximately HK\$25.5 million (FY2012: approximately HK\$17.5 million). Total comprehensive loss amounted to approximately HK\$17.5 million due to the property valuation gain as a result of reclassification of property as investment property (FY2012: total comprehensive gain of approximately HK\$11.6 million).

Liquidity, financial resources and capital structure

As at 31 March 2013, UIHHL Group maintained total bank balances and cash of approximately HK\$61.7 million. Such balances were denominated in HK\$, RMB and US\$.

As at 31 March 2013, UIHHL Group also had amounts due to fellow subsidiaries of approximately HK\$35.7 million and amounts due to immediate holding company of approximately HK\$50.7 million, all of which were denominated in RMB, unsecured, interest-free and repayable on demand.

On 1 November 2009, UIHHL Group issued the Preferred Shares to FSG. The Preferred Shares were convertible into 2,590 common shares of UIHHL, representing 25.9% of the issued common shares of UIHHL upon conversion of the Preferred Shares. Holders of the Preferred Shares were entitled to a preferred return of 6% per annum prior to the conversion of the Preferred Shares. On 1 November 2012, the 2,590 Preferred Shares were converted into 2,590 common shares of UIHHL in accordance with the terms of the Preferred Shares.

As at 31 March 2013, the current ratio of UIHHL Group was approximately 0.8. However, if the amounts due to fellow subsidiaries and immediate holding company in the aggregate amount of approximately HK\$86.5 million are excluded, the current ratio of UIHHL Group would be approximately 1.4.

Treasury policies and foreign exchange exposure

UIHHL Group has limited foreign currency risk as most of the transactions are dominated in the same currency as the functional currency of the operations in which they relate, and the use of financial instruments for hedging purposes is not considered necessary. However, as the principal subsidiaries of UIHHL Group mainly carried out transactions in RMB, therefore any appreciation or depreciation of HK\$ against RMB will be reflected in the exchange reserves as the reporting currency of UIHHL Group is HK\$.

Pledge of assets

As at 31 March 2013, no asset was pledged by UIHHL Group.

Contingent liabilities

As at 31 March 2013, UIHHL Group did not have any contingent liability.

Employees and remuneration policy

As at 31 March 2013, UIHHL Group had a total of 77 employees. Total staff costs decreased to approximately HK\$7.6 million for FY2013 from approximately HK\$8.7 million for FY2012 due to cost control measures undertaken by the management coupled with a decrease in operating activities in line with UIHHL's re-positioning of its strategies. Remuneration packages for employees are reviewed on a regular basis and primarily comprised salaries, social security costs and other short-term employee benefits.

Significant investments held

As at 31 March 2013, UIHHL Group did not hold any significant investment.

Material acquisition and disposal of subsidiaries and associated companies

On 24 October 2012 and 8 February 2013, UIHK entered into agreements with two independent third parties to dispose of the equity interest in 你的客棧(瓦房店)酒店管理有限公司 ("U" Inns (Wafangdian) Hotel Management Co., Limited*) and 你的客棧酒店管理(吐魯番地區)有限公司 ("U" Inns & Hotel Management (Tulufan Prefecture) Co., Limited*) for a consideration of approximately RMB38.2 million (equivalent to approximately HK\$47.2 million) and approximately RMB16.2 million (equivalent to approximately HK\$19.9 million) respectively. Approximately HK\$9.8 million of the total consideration was not received as at 31 March 2013. UIHHL Group was expected to realize, on completion, a gain on the disposals of approximately HK\$3.2 million and HK\$3.8 million respectively.

Prospects and future plan for material investments

China's real estate market was expected a modest recovery in 2013. The Chinese government sought to increase domestic demand and promote consumption growth and continued to support the development of tourism. UIHHL Group expected that a good development trend of China's economy and constant improvement in the investment environment were conducive to UIHHL Group for maintaining its strategies. At the same time, UIHHL Group would continue to focus on China's tourism and real estate market conditions in order to seek better investment returns.

Subsequent to FY2013, UIHHL Group entered into two agreements with two independent third parties to dispose of its 100% equity interests in 你的客棧 (襄樊) 酒店管理有限公司 ("U" Inns & Hotel (Xiangfan) Management Co., Limited*) and 你的客棧酒店管理 (布爾津縣) 有限公司 ("U" Inns (Buerjin) Hotel Management Company Limited*) for the consideration of RMB24.9 million and RMB9.3 million respectively. UIHHL Group also terminated the acquisition of a hotel property located in Chongqing City. The consideration of approximately RMB5.9 million paid by UIHHL Group for the acquisition had been fully refunded.

For the year ended 31 March 2012*Business review*

UIHHL Group is principally engaged in hotel investment and operation, and property investment in the PRC.

During FY2012, UIHHL Group maintained its strategies of developing its properties into budget hotels or commercial offices for leasing or sales, or, when appropriate, outright sale. UIHHL Group continued 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 interests in these industries.

For FY2012, UIHHL Group's operating hotel located in Xiangfan, Hubei Province contributed hotel rental income and F&B revenue of approximately HK\$3.5 million and HK\$0.4 million respectively, compared with the year ended 31 March 2011 ("FY2011") of approximately HK\$4.0 million of hotel rental income and approximately HK\$0.4 million of F&B revenue.

UIHHL Group's office building located in Yingkou, Liaoning Province commenced its leasing operations in May 2011, and contributed office rental income of approximately HK\$2.5 million.

Results

For FY2012, UIHHL Group recorded a turnover in the amount of approximately HK\$6.4 million, representing an increase of approximately 45.5% as compared with approximately HK\$4.4 million for FY2011. Turnover for FY2012 comprised rental income, hotel rental income and F&B revenue of approximately HK\$2.5 million, HK\$3.5 million and HK\$0.4 million respectively. For FY2011, where the office rental operations were not yet commenced, hotel rental income and F&B revenue were approximately HK\$4.0 million and HK\$0.4 million respectively.

For FY2012, UIHHL Group recorded other gains of approximately HK\$9.5 million, primarily attributable to the gain on disposal of the hotel properties located in Yilong County and Langzhong City, Sichuan Province in the amount of approximately HK\$5.0 million and gain on transfer of interest in the hotel properties located in Renshou County and Suining County, Sichuan Province before completion of acquisition in the amount of approximately HK\$3.3 million.

For FY2012, UIHHL Group recorded revaluation gain on its investment properties of approximately HK\$1.0 million. No revaluation gain/loss was recorded for FY2011 as UIHHL Group did not hold any investment property during FY2011.

For FY2012, UIHHL Group recorded a net loss of approximately HK\$17.5 million (FY2011: approximately HK\$25.3 million). Total comprehensive gain amounted to approximately HK\$11.6 million due to the property revaluation gain as a result of reclassification of property as investment property and currency translation differences (FY2011: total comprehensive loss of approximately HK\$7.6 million).

Liquidity, financial resources and capital structure

As at 31 March 2012, UIHHL Group maintained total bank balances and cash of approximately HK\$62.4 million. Such balances were denominated in HK\$, RMB and US\$.

As at 31 March 2012, UIHHL Group also had amounts due to fellow subsidiaries of approximately HK\$39.4 million and amounts due to immediate holding company of approximately HK\$51.6 million, all of which were denominated in RMB, unsecured, interest-free and repayable on demand.

On 1 November 2009, UIHHL Group issued the Preferred Shares to FSG. The Preferred Shares were convertible into 2,590 common shares of UIHHL, representing 25.9% of the issued common shares of UIHHL upon conversion of the Preferred Shares. Holders of the Preferred Shares were entitled to a preferred return of 6% per annum prior to the conversion of the Preferred Shares. Holders of the Preferred Shares should convert the Preferred Shares into common shares of UIHHL at the latest three years from the date of issue of the Preferred Shares. As at 31 March 2012, UIHHL Group recorded a liability component for the Preferred Shares of approximately HK\$25.6 million.

As at 31 March 2012, the current ratio of UIHHL Group was approximately 0.4. However, if the amounts due to fellow subsidiaries and immediate holding company in the aggregate amount of approximately HK\$91.0 million are excluded, the current ratio of UIHHL Group would be approximately 0.9.

Treasury policies and foreign exchange exposure

UIHHL Group has limited foreign currency risk as most of the transactions are dominated in the same currency as the functional currency of the operations in which they relate, and the use of financial instruments for hedging purposes is not considered necessary. However, as the principal subsidiaries of UIHHL Group mainly carried out transactions in RMB, therefore any appreciation or depreciation of HK\$ against RMB will be reflected in the exchange reserves as the reporting currency of UIHHL Group is HK\$.

Pledge of assets

As at 31 March 2012, no asset was pledged by UIHHL Group.

Contingent liabilities

As at 31 March 2012, UIHHL Group did not have any contingent liability.

Employees and remuneration policy

As at 31 March 2012, UIHHL Group had a total of 83 employees. Total staff costs decreased significantly to approximately HK\$8.7 million for FY2012 from approximately HK\$10.4 million for FY2011 due to cost control measures undertaken by the management coupled with a decrease in operating activities in line with UIHHL's re-positioning of its strategies. Remuneration packages for employees are reviewed on a regular basis and primarily comprised salaries, social security costs and other short-term employee benefits.

Significant investments held

As at 31 March 2012, UIHHL Group did not hold any significant investment.

Material acquisition and disposal of subsidiaries and associated companies

During FY2012, UIHHL Group completed the disposal of two hotel properties located at Yilong County and Langzhong City, Sichuan Province at the consideration of RMB21.5 million (equivalent to approximately HK\$26.6 million) and realized a gain of approximately HK\$5.0 million. UIHHL Group also disposed of two hotel properties located in Renshou County and Suining County, Sichuan Province for a total consideration of approximately RMB33.4 million (equivalent to approximately HK\$41.2 million), and realized a net gain of approximately HK\$3.3 million. UIHHL also terminated the acquisition of a hotel property located in Shandong Province. The consideration of RMB8.3 million (equivalent to approximately HK\$10.3 million) paid by UIHHL Group for the acquisition had been fully refunded.

Prospects and future plan for material investments

The economy of the PRC has grown by 9.2% in 2011 and was projected to grow by around 8% in 2012. Though China was slowing down in economic developments speed, its government has implemented a series of supporting policies for small and medium sized enterprises, entrepreneurial and innovation enterprises, such as credit supports, tax breaks and lowering the threshold for investment access etc, and has encouraged individuals to set up small enterprises. The demand for medium sized offices buildings by small & medium sized enterprises especially the entrepreneurial enterprises was increasing. According to 第十二個五年規劃 (the 12th Five-Year-Plan*), the China government would actively develop the tourism industry. UIHHL Group believed that its investment in leasing and sale of budget hotels and commercial offices would avail itself of the economic developments in China.

For the year ended 31 March 2011***Business review***

UIHHL Group is principally engaged in hotel investment and operation in the PRC.

During FY2011, UIHHL Group maintained its strategies of developing its properties into budget hotels or commercial offices for leasing or sales, or, when appropriate, outright sale. UIHHL Group continued 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 interests in these industries.

UIHHL Group's first operating hotel, located in Xiangfan, Hubei province, contributed hotel rental income and F&B revenue of approximately HK\$4.0 million and HK\$0.4 million respectively.

During FY2011, UIHHL Group had commenced the renovation of its property in Yingkou, Liaoning province. The lower floors would be leased to CITIC Bank, while the upper floors were reserved for leasing and/or for sale. Completion of renovation, targeted for April 2011, was delayed by a couple of months due to harsher winter season and additional renovation works. When the entire property was leased out, i.e. on full occupancy, the expected steady rental income was anticipated to be approximately HK\$4.8 million per annum.

Results

For FY2011, UIHHL Group recorded a turnover in the amount of approximately HK\$4.4 million, which comprised hotel rental income and F&B revenue of approximately HK\$4.0 million and HK\$0.4 million respectively

For FY2011, UIHHL Group recorded other gains of approximately HK\$4.3 million, primarily attributable to the gain on disposal of the hotel property located in Daying County, Sichuan Province of approximately HK\$4.3 million.

For FY2011, UIHHL Group recorded a net loss of approximately HK\$25.3 million. Total comprehensive loss attributed to equity holders of UIHHL amounted to approximately HK\$7.6 million due to currency translation differences.

Liquidity, financial resources and capital structure

As at 31 March 2011, UIHHL Group maintained total bank balances and cash of approximately HK\$72.2 million. Such balances were denominated in HK\$, RMB and US\$.

As at 31 March 2011, UIHHL Group also had amounts due to fellow subsidiaries of approximately HK\$57.3 million and amounts due to immediate holding company of approximately HK\$50.6 million, all of which were denominated in RMB, unsecured, interest-free and repayable on demand.

On 1 November 2009, UIHHL Group issued the Preferred Shares to FSG. The Preferred Shares were convertible into 2,590 common shares of UIHHL, representing 25.9% of the issued common shares of UIHHL upon conversion of the Preferred Shares. Holders of the Preferred Shares were entitled to a preferred return of 6% per annum prior to the conversion of the Preferred Shares. Holders of the Preferred Shares should convert the Preferred Shares into common shares of UIHHL at the latest three years from the date of issue of the Preferred Shares. As at 31 March 2011, UIHHL Group recorded a liability component for the Preferred Shares of approximately HK\$24.4 million.

As at 31 March 2011, the current ratio of UIHHL Group was approximately 0.5. However, if the amounts due to fellow subsidiaries and immediate holding company in the aggregate amount of approximately HK\$107.9 million are excluded, the current ratio of UIHHL Group would be approximately 1.1.

Treasury policies and foreign exchange exposure

UIHHL Group has limited foreign currency risk as most of the transactions are dominated in the same currency as the functional currency of the operations in which they relate, and the use of financial instruments for hedging purposes is not considered necessary. However, as the principal subsidiaries of UIHHL Group mainly carried out transactions in RMB, therefore any appreciation or depreciation of HK\$ against RMB will be reflected in the exchange reserves as the reporting currency of UIHHL Group is HK\$.

Pledge of assets

As at 31 March 2011, no asset was pledged by UIHHL Group.

Contingent liabilities

As at 31 March 2011, UIHHL Group did not have any contingent liability.

Employees and remuneration policy

As at 31 March 2011, UIHHL Group had a total of 110 employees. Total staff costs for FY2011 amounted to approximately HK\$10.4 million. Remuneration packages for employees are reviewed on a regular basis and primarily comprised salaries, social security costs and other short-term employee benefits.

Significant investments held

As at 31 March 2011, UIHHL Group did not hold any significant investment.

Material acquisition and disposal of subsidiaries and associated companies

During FY2011, three hotel properties located in the cities of Daying, Yilong and Langzhong in the Sichuan province were disposed of. The hotel property in the city of Daying was sold for approximately RMB22.0 million (equivalent to approximately HK\$26.1 million), and realised a gain of approximately HK\$4.3 million. The hotel properties in the cities of Yilong and Langzhong were contracted to sell for a total of approximately RMB21.5 million (equivalent to approximately HK\$25.5 million), and were expected to realize a gain from the disposal of approximately HK\$4.1 million on completion in July 2011.

Prospects and future plan for material investments

China's continued economic growth and urbanisation trend would continue to demand for more accommodation facilities to cater for travelers, domestic and inbound, and for office spaces for growing businesses. A major task in China's 第十二個五年規劃 (the 12th Five-Year-Plan*) was to transfer its economy from high resource-consuming to environmental friendly industries, of which tourism falls within. The importance of tourism had recently seen the establishment of China's National Tourism Day, which fell on 19 May 2011. UIHHL Group believed that its current focus on budget hotels and commercial offices for leasing or sale was rightly placed to avail itself of these developing trends in China.

The unaudited pro forma financial information of the Remaining Group set out below in this appendix should be read in conjunction with the financial information of the Group as set out in the Company's annual report for the year ended 31 March 2013, the financial information of the UIHHL Group as set out in Appendix II to this circular, and other financial information included elsewhere in this circular.

A. THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE REMAINING GROUP

Introduction

The following is the unaudited pro forma statement of assets and liabilities of the Remaining Group (the "Unaudited Pro Forma Financial Information") which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect on the financial position of the Remaining Group as if the Transaction had been completed on 31 March 2013.

To provide additional financial information, the Unaudited Pro Forma Financial Information of the Remaining Group as at 31 March 2013 has been prepared based on:

- (a) the historical audited consolidated balance sheet of the Group as at 31 March 2013 which has been extracted from the published annual report for the year ended 31 March 2013 of the Company;
- (b) the audited consolidated balance sheet of the UIHHL Group as at 31 March 2013 which has been extracted from Appendix II to this Circular; and
- (c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the Transaction might have affected the historical financial information in respect of the Group as if the Transaction had been completed on 31 March 2013.

The Unaudited Pro Forma Financial Information of the Remaining Group should be read in conjunction with the financial information contained in this circular and the Accountant's Report on the UIHHL Group as set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the Directors for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position of the Remaining Group as at 31 March 2013 or at any future date.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
Unaudited Pro Forma Financial Information

| | Consolidated assets and liabilities of the Company as at 31 March 2013 <i>HK\$'000</i> <i>Note 1</i> | Pro forma adjustments | | Unaudited pro forma statement of assets and liabilities of the Remaining Group <i>HK\$'000</i> |
|--|---|--|--|--|
| | | Assets and liabilities of U Inns Xi'an 31 March 2013 <i>HK\$'000</i> <i>Note 2</i> | Other adjustments <i>HK\$'000</i> <i>Note 3</i> | |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 203,842 | (76,703) | – | 127,139 |
| Land use rights | 51,322 | (26,302) | – | 25,020 |
| Investment properties | 128,405 | – | – | 128,405 |
| Construction in progress | 6,367 | (449) | – | 5,918 |
| Available-for-sale financial assets | 1,128 | – | – | 1,128 |
| Receivables, prepayments and deposits | 7,243 | – | – | 7,243 |
| Total non-current assets | 398,307 | (103,454) | – | 294,853 |
| Current assets | | | | |
| Assets held for sale | 87,901 | – | – | 87,901 |
| Receivables, prepayments and deposits | 4,411 | – | – | 4,411 |
| Bank balances and cash | 90,806 | (506) | – | 90,300 |
| Total current assets | 183,118 | (506) | – | 182,612 |
| Total assets | 581,425 | (103,960) | – | 477,465 |

APPENDIX III

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

| | Consolidated assets and liabilities of the Company as at 31 March 2013 <i>HK\$'000</i> <i>Note 1</i> | Pro forma adjustments | | Unaudited pro forma statement of assets and liabilities of the Remaining Group <i>HK\$'000</i> |
|--|---|--|--|--|
| | | Assets and liabilities of U Inns Xi'an 31 March 2013 <i>HK\$'000</i> <i>Note 2</i> | Other adjustments <i>HK\$'000</i> <i>Note 3</i> | |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Deferred income tax liabilities | 19,803 | – | – | 19,803 |
| Total non-current liabilities | <u>19,803</u> | – | – | <u>19,803</u> |
| Current liabilities | | | | |
| Payables and accruals | 107,347 | (19,586) | 2,300 | 90,061 |
| Liabilities classified as held for sale | 749 | – | – | 749 |
| Borrowings | 448,383 | – | – | 448,383 |
| Total current liabilities | <u>556,479</u> | (19,586) | 2,300 | <u>539,193</u> |
| Total liabilities | <u><u>576,282</u></u> | (19,586) | 2,300 | <u><u>558,996</u></u> |

Notes:

1. The balances were extracted from the consolidated statement of financial position of the Company as at 31 March 2013 as set out in the Company's published annual report for the year ended 31 March 2013.
2. Pursuant to the Asset Swap Agreement, the shares of U Inns Xi'an were disposed by the Group to FSG. The balances were the assets and liabilities of U Inns Xi'an assuming completion of repayment of inter-company loans. The balances were being extracted from financial information of the UIHHL Group as at 31 March 2013 as set out in Note 30 of Appendix II to this circular. The Transaction is in effect an asset swap whereby the Company exchanges 74.1% equity interest in U Inns Xi'an for 25.9% equity interest in UIHHL.

Since the carrying amounts of the assets and liabilities of U Inn Xi'an at the date of Completion may be substantially different from the carry amounts used in the preparation of this Unaudited Pro Forma Financial Information of the Remaining Group, the final amounts of the assets and liabilities to be disposed in connection with the Transaction may be different from the amounts presented here and the difference may be significant.
3. The adjustment represents the estimated amounts of the legal and professional fees and other expenses of approximately HK\$2,300,000, which are directly attributable to the Transaction.
4. This unaudited Pro Forma Financial Information did not reflect the change in equity. The non-controlling interest amounting to HK\$88,375,000 as at 31 March 2013 shall be adjusted to zero if the proposed Transaction had been completed on 31 March 2013.
5. No other adjustments have been made to reflect any operating result or other transactions of the Group and the UIHHL Group entered into or completed subsequent to 31 March 2013, including the disposal of subsidiaries' shares as mentioned under the paragraph headed "Information on The UIHHL Group and U Inns Xi'an" in the Letter from the Board contained in this circular.

**B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA
FINANCIAL INFORMATION**

羅兵咸永道

**Accountant's report on unaudited pro forma financial information to the directors of
VXL Capital Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of VXL Capital Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors after taken into consideration of the disposal of 74.1% effective interests in "U" Inns & Hotels (Xi'an) Hotel Management Company Limited and the acquisition of the 25.9% equity shares of "U" Inns and Hotels Holdings Limited (collectively the "Remaining Group") for illustrative purposes only. The unaudited pro forma financial information consists of statement of assets and liabilities as at 31 March 2013 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-4 of the Company's circular dated 13 August 2013, in connection with the acquisition of the UIHHL Shares by the Company from Four Sea Group Limited ("FSG") and the transfer of the equity shares of "U" Inns & Hotels (Xi'an) Hotel Management Company Limited ("U Inns Xi'an") by the UIHHL to FSG to settle the consideration for the acquisition (the "Transaction"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-4.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's assets and liabilities as at 31 March 2013 as if the Transaction had taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 March 2013, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 March 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 August 2013

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL, in connection with its valuation as at 31 May 2013 of the property interests held by the UIHHL Group.



永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

**Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong**

13 August 2013

The Board of Directors

VXL Capital Limited

Room 603A,
6/F, Empire Centre,
68 Mody Road,
Tsimshatsui East,
Kowloon,
Hong Kong

Dear Sirs/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interests held by “U” Inns & Hotels Holdings Limited (“UIHHL”) and its subsidiaries (the “UIHHL Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 May 2013 (the “Valuation Date”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value (“Market Value”) which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

Market Value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

We have valued the property interests of property nos. 1, 3 to 5 and 7 to 11 by direct comparison method which involves making reference to the comparable properties as available and where appropriate, on the basis of capitalization of the net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate case, made provisions for reversionary income potential. However, we have ascribed no commercial value to the property interests of property nos. 2 and 6 as there may have restrictions to the UIHHL Group on the rights of disposal of such properties.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition issued by The Hong Kong Institute of Surveyors.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

- a. transferable land use rights in respect of the properties for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid;
- b. the owners have enforceable titles to the properties and have free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted;
- c. no deleterious or hazardous materials or techniques have been used in the construction of the properties; and
- d. the properties are connected to main services and sewers which are available on normal terms.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the property interests. However, we have not examined the original documents to verify the existing titles to the property interests or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the UIHHL Group's PRC legal advisers, Hesem Law Firm, concerning the validity of the titles to the property interests.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot infestation or any other defects. No tests were carried out on any of the services. Moreover, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc., for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate. No on-site measurement has been taken.

We have relied to a considerable extent on information provided by the UIHHL Group and accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the UIHHL Group. We have also been advised by the UIHHL Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

REMARKS

We have valued the properties in Renminbi (RMB).

We have conducted on-site inspections to the properties in July 2013 by our Mr. Gary K. Y. Lau (Bachelor of Arts).

Our summary of values and valuation certificates are herewith attached.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S. W. Lau

FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)
Managing Director

Peggy Y. Y. Lai

MHKIS, MRICS, RPS(GP), BSC
Senior Associate Director

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 19 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Ms. Peggy Y.Y. Lai is a Registered Professional Surveyor (GP) with over 18 years' experience in valuation of properties in HKSAR, Macau SAR, United Kingdom, Canada, mainland China and the Asia Pacific Region. Ms. Lai is a Professional Member of The Royal Institution of Chartered Surveyors, a Member of The Hong Kong Institute of Surveyors as well as a Member of China Institute of Real Estate Appraisers and Agents in the PRC.

SUMMARY OF VALUES

Market Value in
existing state as at
31 May 2013
RMB

Group I – Property interests held by the UIHHL Group for investment in the PRC

- | | | |
|----|---|---------------------|
| 1. | Bayuquan Post Building, Kunlun Main Street, Bayuquan, Yingkou, Liaoning Province, the PRC | 78,000,000 |
| 2. | A building located at No. 202 Jinjiadun, Jiangnan District, Wuhan, Hubei Province, the PRC | No commercial value |

Group II – Property interests held by the UIHHL Group for owner occupation in the PRC

- | | | |
|----|--|-------------|
| 3. | Xi'an Post Hotel, No. 61 Dongwu Road, Xincheng District, Xi'an, Shaanxi Province, the PRC | 116,000,000 |
| 4. | Tonghua Post Hotel, No. 170 Jianshe Main Street, Dongchang District, Tonghua, Jilin Province, the PRC | 18,900,000 |

| | Market Value in existing state as at 31 May 2013 RMB |
|--|---|
| 5. Jingtangshan Guomai Hotel, No. 1 Lanhuaping Road, Ciping Town, Jingtangshan, Ji'an, Jiangxi Province, the PRC | 50,500,000 |
| 6. Weifang Post Hotel, No. 22 Jianshe Street, Weicheng District, Weifang, Shandong Province, the PRC | No commercial value |
| 7. Ninghai Qinyuan Hotel, No. 5 Xingning Zhong Road, Ninghai County, Ningbo, Zhejiang Province, the PRC | 50,400,000 |
| Group III – Property interests held by UIHHL Group for sale in the PRC | |
| 8. Buerjin Jiakesi Hotel, No. 2 Xiangyang Road, Buerjin County, Altay, Xinjiang Uyghur Autonomous Region, the PRC | 10,200,000 |

| | Market Value in existing state as at 31 May 2013 RMB |
|---|---|
| 9. Xiangfan Post Hotel, No. 110 Qianjin Road, Fancheng District, Xiangfan, Hubei Province, the PRC | 34,800,000 |
| 10. Wafangdian Post Hotel, No. 9 Tiedongban Station Square, Wafangdian, Dalian, Liaoning Province, The PRC | 29,500,000 |
| 11. Turpan Hongyun Hotel, No. 712 Gaochangzhong Road, Turpan, Xinjiang Uyghur Autonomous Region, the PRC | 16,000,000 |
| | <hr/> |
| | Total: <u><u>404,300,000</u></u> |

VALUATION CERTIFICATE

Group I – Property interests held by the UIHHL Group for investment in the PRC

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|--|---|---|
| 1. Bayuquan Zhouyue Building, Kunlun Main Street, Bayuquan, Yingkou, Liaoning Province, the PRC | <p>The property is located in the central district of Yingkou, the locality is a commercial and residential area predominated by residential buildings and office buildings. Shopping arcade and community facilities are available within a reasonable walking distance.</p> <p>The property comprises a 17-storey commercial building with one basement floor erected on a parcel of land with a site area of approximately 2,393.74 sq.m. (25,766 sq.ft.).</p> <p>As advised, major renovation works of the property were completed in 2011.</p> <p>The property has a gross floor area of approximately 10,740.38 sq.m. (115,609 sq.ft.)</p> <p>The land use rights of the property were granted for a term expiring on 24 March 2051 for commercial uses.</p> | <p>The property is subject to two tenancy agreements at a total annual rental of RMB1,955,600 exclusive of management fees with the latest term expiring on 14 June 2022.</p> | <p>78,000,000 (RENMINBI SEVENTY EIGHT MILLION)</p> |

Notes:

- Pursuant to a State-owned Land Use Right Certificate – 營口國用(2011)第5044號, the land use rights of the property with a total site area of approximately 2,393.74 sq.m. were granted to “U” Inns & Hotels (Ying Kou) Management Co., Limited (你的客棧(營口)酒店管理有限公司) (“U” Inns (Ying Kou)”) for a term expiring on 24 March 2051 for commercial uses.

2. Pursuant to a Building Ownership Certificate – Ba Fang Quan Zheng Zi Di No. 00461674 (鮫房權証字第00461674號), the building ownership of the property with a gross floor area of approximately 10,740.38 sq.m. is vested in “U” Inns (Ying Kou).

3. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesem Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Ying Kou);

 - ii. “U” Inns (Ying Kou) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and

 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|---|---|---|--|
| 2. A building located at No. 202 Jinjiadun, Jiangnan District, Wuhan, Hubei Province, the PRC | <p>The property is located in the central district of Wuhan, the locality is a commercial and residential area predominated by residential buildings, office buildings and hotels. The Hankou Train Station and Hankou Train Station Metro Station are both located in a reasonable walking distance.</p> <p>The property comprises a 5-storey hotel with 83 guest rooms completed in 2000's.</p> <p>The property has a total gross floor area of approximately 4,008.02 sq.m. (43,142 sq.ft.).</p> <p>The land use rights of the property were allocated for other uses.</p> | The property is subject to a tenancy agreement at an initial annual rental of RMB2,000,000 exclusive of management fees for a term expiring on 9 October 2021 for hotel uses. | No commercial value (Please refer to Note 2 below for details.) |

Notes:

1. Pursuant to the Building Ownership Certificate, the building ownerships of the property with a gross floor area of approximately 4,008.02 sq.m. is allocated to "U" Inns & Hotels (Wu Han) Management Co., Limited (你的客棧 (武漢) 酒店管理有限公司) ("U" Inns (Wu Han)).
2. We have ascribed no commercial value to the property as the property is erected on an allocated land which may have restrictions for "U" Inns (Wu Han) on the rights of disposal. However, by assuming that the land use rights of the property is granted to "U" Inns (Wu Han) and "U" Inns (Wu Han) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market, we are of the opinion that the reference value of the property as at the Valuation Date was RMB25,700,000.

3. We have been provided with a legal opinion regarding the property interest by the UIHHL Group's PRC legal adviser, Hesens Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by "U" Inns (Wu Han);
 - ii. "U" Inns (Wu Han) is entitled to use the property and has restrictions on the rights of transfer of the property;
 - iii. "U" Inns (Wu Han) is obtaining relevant documents and is in the process of applying for the change of the land use rights of the property from allocated land to granted land;
 - iv. "U" Inns (Wu Han) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market upon the land use rights of the property have been changed from allocated land to granted land and "U" Inns (Wu Han) has obtained the land use rights certificate of the property;
 - v. there is no legal impediment for "U" Inns (Wu Han) to apply for the aforesaid change on the land use rights of the property after obtained all the necessary documents/permits and settlement of relevant land grant premium. It is expected that the change on the land use rights of the property will be completed by the end of 2013; and
 - vi. the property is free from any mortgages or third parties' encumbrances.

Group II – Property interests held by the UIHHL Group for owner occupation in the PRC

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|--|--------------------------|---|
| 3. Xi'an Post Hotel, No. 61 Dongwu Road, Xincheng District, Xi'an, Shaanxi Province, the PRC | <p>The property is located in the central district of Xi'an, the locality is a commercial area predominated by government buildings, office buildings and hotels. The Zhonglou Metro Station is located in a reasonable walking distance.</p> <p>The property comprises an 8-storey hotel erected on a parcel of land with a site area of approximately 2,547.81 sq.m. (27,424 sq.ft.) completed in 1990's.</p> <p>The property provides 314 guest rooms and various ancillary facilities and has a total gross floor area of approximately 14,171.58 sq.m. (152,543 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 9 August 2057 for public facilities uses.</p> | The property is vacant. | 116,000,000 (RENMINBI ONE HUNDRED AND SIXTEEN MILLION) |

Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Xi Xin Guo Yong (2012) Di No. 228 (西新國用(2012)第228號), the land use rights of the property with a site area of approximately 2,547.81 sq.m. were granted to “U” Inns & Hotels (Xi An) Management Co., Limited (你的客棧(西安)酒店管理有限公司) (“U” Inns (Xi An)”) for a term expiring on 9 August 2057 for public facilities uses.
- Pursuant to a Building Ownership Certificate – Xi An Shi Fang Quan Zheng Xin Cheng Qu Zi Di No. 1125110003IV-35-1~1 (西安市房權證新城區字第1125110003IV-35-1~1), the building ownership of the property with a gross floor area of approximately 14,171.58 sq.m. is vested in “U” Inns (Xi An).

3. Pursuant to an Asset Swap Agreement entered into between VXL Capital Limited (the “Company”), “U” Inns and Hotels Investment Limited (UIHK) and Fortune Sea Group Limited (“FSG”), the Company has conditionally agreed to acquire, and FSG has conditionally agreed to dispose of, 25.9% equity interest in UIHHL (the “UIHHL Shares”). The consideration payable for the UIHHL Shares will in substance be satisfied by way of transfer of the 100% equity interest in U Inns (Xi An) from UIHK to FSG.

4. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesen Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Xi An);

 - ii. “U” Inns (Xi An) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and

 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|---|---|--|
| 4. Tonghua Post Hotel, No. 170 Jianshe Main Street, Dongchang District, Tonghua, Jilin Province, the PRC | <p>The property is located in the central district of Tonghua, the locality is a commercial and residential area predominated by residential buildings, office buildings and hotels. The Tonghua Train Station is located in a reasonable walking distance.</p> <p>The property comprises a 7-storey hotel erected on a parcel of land with a site area of approximately 1,943.19 sq.m. (20,916 sq.ft.) completed in 2000's.</p> <p>The property provides 118 guest rooms and various ancillary facilities and has a total gross floor area of approximately 5,318.37 sq.m. (57,247 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 8 April 2048 for catering and hotel uses.</p> | <p>Portion of the property with a gross floor area of approximately 273.60 sq.m. is subject to a tenancy agreement at an annual rental of RMB79,815 exclusive of management fees for a term of 5 years commencing on 12 December 2008 whilst the remaining portion of the property is vacant.</p> | <p>18,900,000</p> <p>(RENMINBI EIGHTEEN MILLION AND NINE HUNDRED THOUSAND)</p> |

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Tong Shi Guo Yong (2008) Di No. 050212128 (通市國用(2008)第050212128號), the land use rights of the property with a site area of approximately 1,943.19 sq.m. were granted to “U” Inns & Hotels (Tong Hua) Management Co., Limited (你的客棧(通化)酒店管理有限公司) (“U” Inns (Tong Hua)”) for a term expiring on 8 April 2048 for catering and hotel uses.
2. Pursuant to 2 Building Ownership Certificates – Ji Fang Quan Zheng Tong Zi Di Nos. G006973 and G006990 (吉房權証通字第G006973及G006990號), the building ownerships of the property with a total gross floor area of approximately 5,318.37 sq.m. are vested in “U” Inns (Tong Hua).
3. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesem Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Tong Hua);
 - ii. “U” Inns (Tong Hua) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and
 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|---|--------------------------|--|
| 5. Jinggangshan Guomai Hotel, No. 1 Lanhuaping Road, Ciping Town, Jinggangshan, Ji'an, Jiangxi Province, the PRC | <p>The property is located in the central district of Jinggangshan, the locality is a tourism area predominated by residential buildings and hotels. The Renmin Hospital and Yicui Lake are located in a reasonable walking distance.</p> <p>The property comprises four 3-5-storey hotel buildings erected on a parcel of land with a site area of approximately 6,909.64 sq.m. (74,375 sq.ft.) completed in 2000's.</p> <p>The property provides 202 guest rooms and various ancillary facilities and has a total gross floor area of approximately 9,124.64 sq.m. (98,218 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 15 September 2039 for commercial uses.</p> | The property is vacant. | 50,500,000 (RENMINBI FIFTY MILLION AND FIVE HUNDRED THOUSAND) |

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Jing Guo Yong (2010) Di No. CL109(井國用(2010)第CL109號), the land use rights of the property with a site area of approximately 6,909.64 sq.m. were granted to “U” Inns & Hotels (Jing Gang Shan) Management Co., Limited (你的客棧(井崗山)酒店管理有限公司) (“U” Inns (Jing Gang Shan)”) for a term expiring on 15 September 2039 for commercial uses.
2. Pursuant to 5 Building Ownership Certificates – Jing Fang Quan Zheng Ci Ping Zi Nos. 17837-17841(井房權證茨坪字第17837-17841號), the building ownerships of the property with a total gross floor area of approximately 9,124.64 sq.m. are vested in “U” Inns (Jing Gang Shan).
3. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Jing Gang Shan);
 - ii. “U” Inns (Jing Gang Shan) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and
 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|---|--------------------------|---|
| 6. Weifang Post Hotel, No. 22 Jianshe Street, Weicheng District, Weifang, Shandong Province, the PRC | <p>The property is located in the central district of Weifang, the locality is a commercial and residential area predominated by residential buildings, office buildings and hotels. Shopping arcades and the Weifang Train Station are both located in a reasonable walking distance.</p> <p>The property comprises a 17-storey hotel completed in 1990's.</p> <p>The property provides 320 guest rooms and various ancillary facilities and has a total gross floor area of approximately 14,404.00 sq.m. (155,045 sq.ft.).</p> | The property is vacant. | <p>No commercial value</p> <p>(Please refer to Note 1 below for details.)</p> |

Notes:

1. We have ascribed no commercial value to the property as we have not been provided with relevant title documents of the property and there may have restrictions for the UIHHL Group on the rights of disposal. However, by assuming that the UIHHL Group has obtained all the relevant title documents of the property and is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market, we are of the opinion that the reference value of the property as at the Valuation Date was RMB54,400,000.
2. We have been provided with a legal opinion regarding the property interest by the UIHHL Group's PRC legal adviser, Hesin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the UIHHL Group has not obtained the State-owned Land Uses Rights Certificate and the Building Ownership Certificate of the property as the title of the property is still in the process of transferring from the original owner to the UIHHL Group;
 - ii. as advised, the UIHHL Group is in the process of obtaining the outstanding title certificates for the property;
 - iii. upon obtained the abovementioned title certificates of the property, the UIHHL Group is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market;
 - iv. there is no legal impediment for the UIHHL Group to obtain the outstanding title certificates for the property after obtained all the necessary documents/permits and settlement of relevant land grant premium. It is expected that the UIHHL Group will obtain the outstanding title certificates for the property by the end of 2013; and
 - v. the property is free from any mortgages or third parties' encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|---|--------------------------|--|
| 7. Ninghai Qinyuan Hotel, No. 5 Xingning Zhong Road, Ninghai County, Ningbo, Zhejiang Province, the PRC | <p>The property is located in the central district of Ninghai, the locality is a commercial and residential area predominated by residential buildings, office buildings and hotels. Shopping arcades and community facilities are available within a reasonable walking distance.</p> <p>The property comprises a 7-storey hotel erected on a parcel of land with a site area of approximately 2,431.30 sq.m. (26,171 sq.ft.) completed in 2000's.</p> <p>The property provides 140 guest rooms and various ancillary facilities and has a total gross floor area of approximately 6,647.42 sq.m. (71,553 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 22 September 2048 for hotel and catering uses.</p> | The property is vacant. | 50,400,000 (RENMINBI FIFTY MILLION AND FOUR HUNDRED THOUSAND) |

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Ning Guo Yong (2012) No. 03081 (寧國用(2012)第03081號), the land use rights of the property with a site area of approximately 2,431.30 sq.m. were granted to “U” Inns & Hotels (Ning Hai) Management Co., Limited (你的客棧(寧海)酒店管理有限公司) (“U” Inns (Ning Hai)”) for a term expiring on 22 September 2048 for hotel and catering uses.
2. Pursuant to a Building Ownership Certificate – Ning Fang Quan Zheng Ning Hai Zi Di No. X0078277 (寧房權證寧海字第X0078277號), the building ownerships of the property with a total gross floor area of approximately 6,647.42 sq.m. are vested in “U” Inns (Ning Hai).
3. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesen Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Ning Hai);
 - ii. “U” Inns (Ning Hai) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and
 - iii. the property is free from any mortgages or third parties’ encumbrances.

Group III – Property interests held by the UIHHL Group for sale in the PRC

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|--|--------------------------|--|
| 8. Buerjin Jiakesi Hotel, No. 2 Xiangyang Road, Buerjin County, Altay, Xinjiang Uyghur Autonomous Region, the PRC | <p>The property is located in the central district of Buerjin, the locality is a residential area predominated by residential buildings and hotels. The Renmin Hospital and community facilities are available within a reasonable walking distance.</p> <p>The property comprises a 4-storey hotel erected on a parcel of land with a site area of approximately 2,865.08 sq.m. (30,840 sq.ft.) completed in 2000's.</p> <p>The property provides 68 guest rooms and various ancillary facilities and has a total gross floor area of approximately 3,068.34 sq.m. (33,028 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 28 July 2048 for commercial services uses.</p> | The property is vacant. | 10,200,000 (RENMINBI TEN MILLION AND TWO HUNDRED THOUSAND) |

Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Guo Yong (2008) Di No. 0123 (國用(2008)第0123號), the land use rights of the property with a site area of approximately 2,865.08 sq.m. were granted to “U” Inns & Hotels (Bu Er Jin) Management Co., Limited (你的客棧(布爾津縣)酒店管理有限公司) (“U” Inns (Bu Er Jin)) for a term expiring on 28 July 2048 for commercial services uses.

2. Pursuant to 3 Building Ownership Certificates –Fang Quan Zheng Bu Fang Zi Di Nos. 00006663-00006665 (房權證布房字第00006663-00006665) , the building ownerships of the property with a total gross floor area of approximately 3,068.34 sq.m. are vested in “U” Inns (Bu Er Jin).
3. Pursuant to a Transfer Agreement entered into between “U” Inns & Hotels Investment Limited (“UIHK”), a wholly-owned subsidiary of UIHHL, and Jiang Wei (the “Purchaser”) dated 31 May 2013, UIHK is agreed to dispose of all its shares on “U” Inns (Bu Er Jin) to the Purchaser.
4. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesem Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Bu Er Jin);
 - ii. “U” Inns (Bu Er Jin) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and
 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|---|--------------------------|--|
| 9. Xiangfan Post Hotel, No. 110 Qianjin Road, Fancheng District, Xiangfan, Hubei Province, the PRC | <p>The property is located in the central district of Xiangfan, the locality is a commercial and residential area predominated by residential buildings and office buildings. The Xiangyang Train Station is available within a reasonable walking distance.</p> <p>The property comprises a 14-storey hotel erected on two parcels of land with a total site area of approximately 1,714.91 sq.m. (18,459 sq.ft.) completed in 2000's.</p> <p>The property provides 183 guest rooms and various ancillary facilities and has a total gross floor area of approximately 9,982.71 sq.m. (107,454 sq.ft.).</p> <p>The land use rights of the property were granted for terms expiring on 10 May 2048 for commercial uses.</p> | The property is vacant. | 34,800,000 (RENMINBI THIRTY FOUR MILLION AND EIGHT HUNDRED THOUSAND) |

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates – Xiang Fan Guo Yong (2008) Di Nos. 321001010-2 and 321001010-3-2 (襄樊國用(2008)第321001010-2及321001010-3-2號), the land use rights of the property with a total site area of approximately 1,714.91 sq.m. were granted to “U” Inns & Hotels (Xiang Fan) Management Co., Limited (你的客棧(襄樊)酒店管理有限公司) (“U” Inns (Xiang Fan)”) for terms expiring on 10 May 2048 for commercial uses.

2. Pursuant to a Building Ownership Certificate – Xiang Fan Shi Fang Quan Zheng Fan Cheng Qu Zi Di Nos. 70043647-70043648 (襄樊市房權証樊城區字第70043647-70043648號), the building ownerships of the property with a total gross floor area of approximately 9,982.71 sq.m. are vested in “U” Inns (Xiang Fan).
3. Pursuant to a Transfer Agreement entered into between “U” Inns & Hotels Investment Limited (“UIHK”), a wholly-owned subsidiary of UIHHL, and Liao Jianyong (the “Purchaser”) dated 31 May 2013, UIHK is agreed to dispose of all its shares on “U” Inns (Xiang Fan) to the Purchaser.
4. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Xiang Fan);
 - ii. “U” Inns (Xiang Fan) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and
 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|--|--|--------------------------|--|
| 10. Wafangdian Post Hotel, No.9 Tiedongban Station Square, Wafangdian, Dalian, Liaoning Province, The PRC | <p>The property is located in the central district of Wafangdian, the locality is a commercial and residential area predominated by residential buildings and office buildings. The Wafangdian Train Station is available within a reasonable walking distance.</p> <p>The property comprises a 12-storey hotel erected on a parcel of land with a site area of approximately 1,344.00 sq.m. (14,467 sq.ft.) completed in 2000's.</p> <p>The property provides 246 guest rooms and various ancillary facilities and has a total gross floor area of approximately 9,737.54 sq.m. (104,815 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 1 April 2044 for public facilities uses.</p> | The property is vacant. | 29,500,000 (RENMINBI TWENTY NINE MILLION AND FIVE HUNDRED THOUSAND) |

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Wa Guo Yong (2012) Di No. 316(瓦國用(2012)第316號), the land use rights of the property with a site area of approximately 1,344.00 sq.m. were granted to “U” Inns & Hotels (Wa Fang Dian) Management Co., Limited (你的客棧(瓦房店)酒店管理有限公司) (“U” Inns (Wa Fang Dian)”) for a term expiring on 1 April 2044 for public facilities uses.
2. Pursuant to a Building Ownership Certificate – Wa Fang Quan Zheng Tie Chan Zi Di No. 201205550(瓦房權証鐵單字第201205550號), the building ownership of the property with a gross floor area of approximately 9,737.54 sq.m. is vested in “U” Inns (Wa Fang Dian).

3. Pursuant to a Transfer Agreement entered into between “U” Inns & Hotels Investment Limited (“UIHK”), a wholly-owned subsidiary of UIHHL, and 瓦房店嘉泰購物廣場有限責任公司 (Wafangdian Jiatai Shopping Mall Co. Limited*) (the “Purchaser”), the principal activities of which include the operation of shopping malls and property investment in the PRC, dated 24 October 2012, UIHK is agreed to dispose of all its shares on “U” Inns (Wa Fang Dian) to the Purchaser.

4. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Wa Fang Dian);

 - ii. “U” Inns (Wa Fang Dian) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and

 - iii. the property is free from any mortgages or third parties’ encumbrances.

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 May 2013 RMB |
|---|--|--------------------------|---|
| 11. Turpan Hongyun Hotel, No. 712 Gaochangzhong Road, Turpan, Xinjiang Uyghur Autonomous Region, the PRC | <p>The property is located in the central district of Turpan, the locality is a residential area predominated by residential buildings and hotels. Shopping arcades and community facilities are available within a reasonable walking distance.</p> <p>The property comprises an 8-storey hotel erected on a parcel of land with a site area of approximately 1,726.40 sq.m. (18,583 sq.ft.) completed in 2000's.</p> <p>The property provides 114 guest rooms and various ancillary facilities and has a total gross floor area of approximately 5,128.78 sq.m. (55,206 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 1 July 2038 for commercial uses.</p> | The property is vacant. | 16,000,000 (RENMINBI SIXTEEN MILLION) |

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate No. 00067, the land use rights of the property with a site area of approximately 1,726.40 sq.m. were granted to "U" Inns & Hotels (Turpan) Management Co., Limited (你的客棧酒店管理(吐魯番地區)有限公司)("U" Inns (Turpan)) for a term expiring on 1 July 2038 for commercial uses.
2. Pursuant to a Building Ownership Certificate –Tu Fang Quan Zheng Tu Shi Zi Di No. 00022931 (吐房權証吐市字第00022931號), the building ownerships of the property with a total gross floor area of approximately 5,128.78 sq.m. are vested in "U" Inns (Turpan).

3. Pursuant to a Transfer Agreement entered into between “U” Inns & Hotels Investment Limited (“UIHK”), a wholly-owned subsidiary of UIHHL, and Shi Lijun (the “Purchaser”) dated 8 February 2013, UIHK is agreed to dispose of all its shares on “U” Inns (Turpan) to the Purchaser.
4. We have been provided with a legal opinion regarding the property interest by the UIHHL Group’s PRC legal adviser, Hesem Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property is legally held by “U” Inns (Turpan);
 - ii. “U” Inns (Turpan) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property freely in the market; and
 - iii. the property is free from any mortgages or third parties’ encumbrances.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Long Position in Shares and underlying Shares

| Name of Directors | Nature of Interests | | Shares/ underlying Shares | Approximate % of issued Shares |
|-------------------------------------|--|-------------|---------------------------------|--------------------------------------|
| Datuk LIM Chee Wah ("Datuk LIM") | Interests in Shares – Corporate Interests | <i>Note</i> | 1,069,308,000 | 69.9% |

Note:

The corporate interests of 1,069,308,000 Shares are held by VXLCP. The interests in 1,069,308,000 Shares comprise 769,308,000 Shares and 300,000,000 Shares which are beneficially owned by VXLCP and Huge More Limited ("Huge More") respectively. Huge More is a wholly-owned subsidiary of VXLCP since 7 May 2010. Datuk LIM is a director and the beneficial owner of VXLCP.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company has any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (not being a Director or chief executive of the Company) have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or have any options in respect of such capital:

| Name of Shareholders | Nature of Interests | | Shares/ underlying Shares | Approximate % of issued Shares |
|----------------------|---|-------------|---------------------------------|--------------------------------------|
| VXLCPL | Interests in Shares – Beneficial Interests | <i>Note</i> | 1,069,308,000 | 69.9% |
| Huge More | Interests in Shares – Beneficial Interests | <i>Note</i> | 300,000,000 | 19.6% |

Note:

The interests in 1,069,308,000 Shares comprise 769,308,000 Shares and 300,000,000 Shares which are beneficially owned by VXLCPL and Huge More, respectively. Huge More is wholly-owned by VXLCPL since 7 May 2010. Datuk LIM is a director and the beneficial owner of VXLCPL.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other persons (not being a Director or the chief executive of the Company) has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or has any options in respect of such capital.

4. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) have been entered into by any member of the Group within the two years preceding the Latest Practicable Date:

- (a) a sale and purchase agreement dated 21 September 2011 entered into between Daily Right Limited, a wholly-owned subsidiary of the Company, BRE/Changshou S.à.r.l (“BRE”) and Skybird International Limited (“Buyer”) whereby BRE and Daily Right Limited agreed to sell to the Buyer the 95% equity interest and 5% equity interest in Moral High Limited, respectively. The aggregate consideration was RMB1,460.0 million (subject to certain deductions and adjustments). The consideration attributable to the 5% equity interest in Moral High Limited sold by Daily Right Limited was approximately RMB43.8 million;
- (b) a sale and purchase agreement dated 23 November 2011 entered into between 你的客棧酒店(四川)有限公司 (“U” Inns & Hotel (Sichuan) Co., Ltd.*), a non-wholly owned subsidiary of the Company, as vendor, and 仁壽縣景聖景房地產開發有限責任公司 (Renshou Jingshengjing Property Development Co., Ltd.*), as purchaser, in respect of the sale of a hotel property located in Renshou County, Sichuan Province, the PRC for a total consideration of RMB17.37 million;
- (c) a sale and purchase agreement dated 23 November 2011 entered into between 你的客棧酒店(四川)有限公司 (“U” Inns & Hotel (Sichuan) Co., Ltd.*), a non-wholly owned subsidiary of the Company, as vendor, and 四川省向東方投資集團有限公司 (Sichuan Xiangdongfang Investment Group Co., Ltd.*), as purchaser, in respect of the sale of a hotel property located in Suining County, Sichuan Province, the PRC for a total consideration of RMB16.00 million;
- (d) an equity transfer agreement dated 24 October 2012 entered into between UIHK, as vendor, and 瓦房店嘉泰購物廣場有限責任公司 (Wafangdian Jiatai Shopping Mall Co., Ltd.*), as purchaser, in respect of the sale of 100% of the equity interest in 你的客棧(瓦房店)酒店管理有限公司 (“U” Inns (Wafangdian) Hotel Management Co., Ltd.*) for a total consideration of approximately RMB24.08 million;
- (e) an equity transfer agreement dated 8 February 2013 entered into between UIHK, as vendor, and Mr. Shi Lijun, as purchaser, in respect of the sale of 100% of the equity interest in 你的客棧酒店管理(吐魯番地區)有限公司 (“U” Inns & Hotel Management (Tulufan Prefecture) Co., Ltd.*) for a total consideration of approximately RMB15.1 million;

- (f) an equity transfer agreement dated 31 May 2013 entered into between UIHK, as vendor, and Mr. Jiang Wei, as purchaser, in respect of the sale of 100% of the equity interest in 你的客棧酒店管理(布爾津縣)有限公司 (“U” Inns (Buerjin) Hotel Management Co., Ltd.*) for a total consideration of approximately RMB9.3 million;
- (g) an equity transfer agreement dated 31 May 2013 entered into between UIHK, as vendor, and Mr. Liao Jianyong, as purchaser, in respect of the sale of 100% of the equity interest in 你的客棧(襄樊)酒店管理有限公司 (“U” Inns & Hotel (Xiangfan) Hotel Management Co., Ltd.*) for a total consideration of approximately RMB24.9 million;
- (h) a termination agreement dated 26 June 2013 entered into between 重慶你的客棧酒店管理有限公司 (Chongqing “U” Inns & Hotels Management Co., Ltd.*) (“U” Inns Chongqing”), a non-wholly owned subsidiary of the Company, and 重慶市郵政公司 (Chongqing City Post Company*) to terminate the acquisition of a hotel property located in Chongqing City, the PRC by “U” Inns Chongqing. The consideration of RMB5.85 million paid by the Group for the acquisition has been refunded in full to the Group; and
- (i) the Asset Swap Agreement.

5. LITIGATION

Save as disclosed below, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date:

- (a) on 4 October 2011, the Company received a notice dated 30 September 2011 that a claim (the “Former CEO Claim”) was filed in the Labour Tribunal against it by a former chief executive officer of the Company (the “Former CEO”) for a total sum of HK\$30.00 million which was the alleged discretionary bonus owed by the Company to the Former CEO. Details relating to the Former CEO Claim were disclosed in the announcement of the Company dated 6 October 2011. A deed of settlement dated 18 May 2012 was entered into between the Company, VXL Management Services Limited (“VXLMS”), a wholly-owned subsidiary of the Company, and the Former CEO, pursuant to which VXLMS has paid a sum of approximately HK\$0.95 million to the Former CEO and the proceedings were dismissed; and

- (b) on 17 May 2011, VXLMS, a wholly-owned subsidiary of the Company, as plaintiff, issued a writ of summons in Hong Kong against 上海華揚賽利實業發展有限公司 (Shanghai Huayang Saili Enterprise Development Co., Ltd.*) (“Huayang”) in respect of a claim for, among other things, an overdue loan in the amount of RMB10.00 million and the interest accrued thereon owed by Huayang to VXLMS. A deed of settlement dated 4 June 2012 was entered into between VXLMS and Huayang, pursuant to which Huayang has paid a sum of RMB4.50 million after netting off the payables due by a subsidiary of the Company and the proceedings were dismissed.

6. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given their respective opinions contained in this circular:

| Name | Qualification |
|------------------------|---|
| Goldin Financial | A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO |
| PricewaterhouseCoopers | Certified public accountants |
| RHL | Independent property valuer |

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above experts did not have any direct or indirect interest in any assets which were, since 31 March 2013 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which did not expire or was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. COMPETING INTERESTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

None of the Directors has any direct or indirect interest in any assets which had been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31 March 2013 (being the date to which the latest published audited financial statements of the Group were made up).

As at the Latest Practicable Date, save for the loans in the amounts of approximately US\$10.3 million and approximately HK\$380.0 million borrowed by the Group from VXLCPPL both at the interest rate of 10% per annum, there was no contract or arrangement entered into by any member of the Group subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at Room 603A, 6th Floor, Empire Centre, No. 68 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong, from the date of this circular and up to and including 29 August 2013:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (c) the annual reports of the Company for each of the two years ended 31 March 2012 and 2013;

- (d) the accountant's report on the UIHHL Group for the three years ended 31 March 2011, 2012 and 2013 as set out in Appendix II to this circular;
- (e) the accountant's report on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular;
- (f) the letter of advice from Goldin Financial to the Independent Board Committee and the Shareholders as set out in the section headed "Letter from Goldin Financial" in this circular;
- (g) the property valuation report issued by RHL as set out in Appendix IV to this circular; and
- (h) the letters of consent referred to under the paragraph headed "Experts and Consents" in this appendix.

10. GENERAL

- (a) The company secretary of the Company is Ms. LIM Yi Ping. She is a member of the Institute of Chartered Accountants in Australia, Australia Institute of Certified Public Accountants and Hong Kong Certified Public Accountants.
- (b) The share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited at 31/F, 148 Electric Road, North Point, Hong Kong.
- (c) The registered office of the Company is situated at Room 603A, 6th Floor, Empire Centre, No. 68 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.