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VXL CAPITAL LIMITED

卓越金融有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

The board of directors (the “Board”) of VXL Capital Limited (the “Company”) presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2013 together with the relevant comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 September 2013

		Unaudited	
		Six months ended 30 September	
		2013	2012
	Note	HK\$'000	HK\$'000
Turnover	3	3,123	3,096
Other gains, net		28,329	1,551
Revaluation gain on investment property		–	245
Staff costs		(5,099)	(6,067)
Other operating expenses, net		<u>(11,632)</u>	<u>(11,955)</u>
Operating profit/(loss)	4	14,721	(13,130)
Finance income		178	287
Finance costs		<u>(23,054)</u>	<u>(24,030)</u>
Loss before taxation		(8,155)	(36,873)
Taxation charge	5	<u>(1,391)</u>	<u>(86)</u>
Loss for the period		<u>(9,546)</u>	<u>(36,959)</u>

	Unaudited	
	Six months ended 30 September	
	2013	2012
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income:		
Currency translation differences	3,200	(2,647)
Deferred tax on revaluation increase	–	(4,167)
Property revaluation gain	–	13,016
	<u>3,200</u>	<u>6,202</u>
Other comprehensive income for the period, net of tax	<u>3,200</u>	<u>6,202</u>
Total comprehensive loss for the period	<u>(6,346)</u>	<u>(30,757)</u>
Loss for the period attributable to:		
Owners of the Company	(14,558)	(36,959)
Non-controlling interest	5,012	–
	<u>(9,546)</u>	<u>(36,959)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(12,188)	(30,757)
Non-controlling interest	5,842	–
	<u>(6,346)</u>	<u>(30,757)</u>
Basic and diluted loss per ordinary share for loss for the period attributable to equity holders of the Company	6	
	<u>HK(0.95) cents</u>	<u>HK(2.42) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2013

		(Unaudited) 30 September 2013 <i>HK\$'000</i>	(Audited) 31 March 2013 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	120,855	203,842
Land use rights	7	21,534	51,322
Investment property	8	98,373	128,405
Construction in progress		172	6,367
Available-for-sale financial assets		1,128	1,128
Receivables, prepayments and deposits	10	–	7,243
		242,062	398,307
Current assets			
Assets held for sale	9	203,068	87,901
Receivables, prepayments and deposits	10	2,720	4,411
Bank balances and cash		132,182	90,806
		337,970	183,118
Current liabilities			
Payables and accruals	11	63,414	107,347
Liabilities classified as held for sale	9	26,603	749
Borrowings	12	471,048	448,383
		561,065	556,479
Net current liabilities		(223,095)	(373,361)
Total assets less current liabilities		18,967	24,946
Non-current liabilities			
Deferred income tax liabilities	13	20,170	19,803
		20,170	19,803
Net (liabilities)/assets		(1,203)	5,143
EQUITY			
Share capital		15,296	15,296
Reserves		(110,716)	(98,528)
Total shareholders' deficit		(95,420)	(83,232)
Non-controlling interest		94,217	88,375
Total equity		(1,203)	5,143

NOTES

1 BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the six months ended 30 September 2013 is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The unaudited condensed consolidated financial information should be read in conjunction with the financial statements for the year ended 31 March 2013, which had been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

For the six months ended 30 September 2013, the Group had a loss of HK\$9.5 million (2012: HK\$37.0 million). At 30 September 2013, the Group had net current liabilities of HK\$223.1 million (31 March 2013: HK\$373.4 million) and shareholders’ deficit of HK\$95.4 million (31 March 2013: HK\$83.2 million). The above conditions indicate the existence of uncertainties which may cast doubt on the Group’s ability to continue as a going concern. Notwithstanding the above, the condensed consolidated financial information is prepared on a going concern basis. Its current liabilities mainly consist of short-term borrowings, considerations received from the buyers for the equity disposals. Subsequent to the period end, the management has obtained agreement, on 29 October 2013, from the ultimate holding company, VXL Capital Partners Corporation Limited (“VXLCPL”) to extend the repayment of certain short-term borrowings totalling HK\$471.0 million to 1 October 2014. On 17 October 2013, the Group has entered into an agreement to dispose a subsidiary that would generate cash of approximately HK\$27.0 million for the Group. Furthermore, the Group has been seeking for investment opportunities and considering to realize certain assets whichever is most appropriate and advantageous to the Group. The management is confident that the Group is able to meet its obligations as and when they fall due. Moreover, VXLCPL has confirmed its intention to provide sufficient financial support to the Group so as to enable the Group to meet all its liabilities and obligations as and when they fall due and to enable the Group to continue its business for the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial information on a going concern basis.

2 PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2013, except the Group has adopted the following new and revised standards and interpretation issued by the Hong Kong Institute of Certificate Public Accountants (“HKICPA”) which are mandatory for the financial period beginning on or after 1 April 2013.

HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Annual Improvement Project	Annual improvements 2009-2011 Cycle

The adoption of the above new and revised standards and interpretation has no significant impact to the Group’s financial position for all periods presented in this report.

The following new and revised standards and interpretation have been issued but are not effective for the financial year beginning on 1 April 2013 and have not been early adopted by the Group:

HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
HKFRS 9	Financial Instruments
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) – Int 21	Levies

Taxes on income in the six months ended 30 September 2013 are accrued using the tax rate that would be applicable to expected total annual earnings.

3 TURNOVER AND SEGMENT INFORMATION

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

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

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

Capital expenditures comprise additions to investment property (*Note 8*), property, plant and equipment and land use rights (*Note 7*) and construction in progress. Segment assets consist primarily of property, plant and equipment, land use rights, construction in progress, investments and receivables. Segment liabilities comprise borrowings and operating liabilities. Unallocated assets and liabilities mainly represent assets and liabilities used by the corporate office, which cannot be allocated on a reasonable basis to any segment. They include items such as corporate borrowings.

3 TURNOVER AND SEGMENT INFORMATION (Continued)

The segment results, depreciation and amortization, and capital expenditures based on reportable segments for the six months ended 30 September 2013 and 2012 are as follows:

	Property investment <i>HK\$'000</i>	Hotel operations ^{Note} <i>HK\$'000</i>	Total for reportable segments <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Six months ended 30 September 2013					
Segment revenue:					
Sales to external customers	<u>2,495</u>	<u>628</u>	<u>3,123</u>	<u>-</u>	<u>3,123</u>
Segment results	2,196	17,566	19,762	(5,041)	14,721
Finance income	7	160	167	11	178
Finance costs	<u>(1,001)</u>	<u>(10,777)</u>	<u>(11,778)</u>	<u>(11,276)</u>	<u>(23,054)</u>
Profit/(loss) before taxation	<u>1,202</u>	<u>6,949</u>	<u>8,151</u>	<u>(16,306)</u>	<u>(8,155)</u>
Taxation	<u>(2)</u>	<u>(1,389)</u>	<u>(1,391)</u>	<u>-</u>	<u>(1,391)</u>
Profit/(loss) for the period	<u><u>1,200</u></u>	<u><u>5,560</u></u>	<u><u>6,760</u></u>	<u><u>(16,306)</u></u>	<u><u>(9,546)</u></u>
Other segment information					
Depreciation and amortization	49	2,308	2,357	129	2,486
Written back of other payables	892	-	892	-	892
Additions to					
– Property, plant and equipment	<u><u>883</u></u>	<u><u>807</u></u>	<u><u>1,690</u></u>	<u><u>-</u></u>	<u><u>1,690</u></u>

Note:

Hotel operations segment included hotels which have not been in operations as at 30 September 2013.

3 TURNOVER AND SEGMENT INFORMATION (Continued)

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

Note:

Hotel operations segment included hotels which have not been in operations as at 30 September 2012.

3 TURNOVER AND SEGMENT INFORMATION (Continued)

The segment assets and liabilities based on reportable segments as at 30 September 2013 and 31 March 2013 are as follows:

	Property investment <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Total for reportable segments <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	The Group <i>HK\$'000</i>
At 30 September 2013					
Segment assets	154,745	290,030	444,775	3,075	447,850
Bank balances and cash	<u>11,559</u>	<u>104,958</u>	<u>116,517</u>	<u>15,665</u>	<u>132,182</u>
Total assets	<u>166,304</u>	<u>394,988</u>	<u>561,292</u>	<u>18,740</u>	<u>580,032</u>
Segment liabilities	30,182	73,068	103,250	6,937	110,187
Amount due to ultimate holding company	<u>20,792</u>	<u>153,521</u>	<u>174,313</u>	<u>296,735</u>	<u>471,048</u>
Total liabilities	<u>50,974</u>	<u>226,589</u>	<u>277,563</u>	<u>303,672</u>	<u>581,235</u>
At 31 March 2013					
Segment assets	151,713	336,577	488,290	2,329	490,619
Bank balances and cash	<u>6,363</u>	<u>61,791</u>	<u>68,154</u>	<u>22,652</u>	<u>90,806</u>
Total assets	<u>158,076</u>	<u>398,368</u>	<u>556,444</u>	<u>24,981</u>	<u>581,425</u>
Segment liabilities	29,457	91,293	120,750	7,149	127,899
Amount due to ultimate holding company	<u>19,791</u>	<u>146,128</u>	<u>165,919</u>	<u>282,464</u>	<u>448,383</u>
Total liabilities	<u>49,248</u>	<u>237,421</u>	<u>286,669</u>	<u>289,613</u>	<u>576,282</u>

3 TURNOVER AND SEGMENT INFORMATION (Continued)

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

The Group's businesses operate in Hong Kong and the People's Republic of China (the "PRC"). The Group's revenue for the six months ended 30 September 2013 and 2012 and non-current assets as at 30 September 2013 and 31 March 2013 based on geographical area are as follows:

	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Revenue		
Hong Kong	–	–
PRC	<u>3,123</u>	<u>3,096</u>
	<u>3,123</u>	<u>3,096</u>
	30 September	31 March
	2013	2013
	HK\$'000	HK\$'000
Non-current assets		
Hong Kong	1,150	1,503
PRC	<u>240,912</u>	<u>396,804</u>
	<u>242,062</u>	<u>398,307</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.

4 OPERATING PROFIT/(LOSS)

	Six months ended 30 September	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit/(loss) is arrived at after charging/(crediting):		
Legal and professional fee	–	393
Consultancy fee	1,099	390
Gain on disposal of subsidiaries (<i>Note 14</i>)	(26,195)	–
Gain on transfer of interest in property	–	(1,079)
Depreciation and amortization	2,486	3,691
Fair value gain on investment property	–	245
Gain on disposal of property, plant and equipment	(80)	–
Provision for impairment of receivables, prepayments and deposits	–	1,408
Reversal of provision for receivable	–	(4,100)
Written back of other payables	(892)	(1,427)
Net exchange gain	(543)	(138)
Office rental	963	884
	<u> </u>	<u> </u>

5 TAXATION

No provision for Hong Kong profits tax (six months period ended 30 September 2012: Nil) has been made for the period as the Group has no assessable profit for the period. Taxation on PRC profits has been calculated on the estimated assessable profit for the period at the rates of taxation in the PRC.

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

5 TAXATION (Continued)

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

	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Current tax – PRC	1,391	2
Deferred taxation	–	84
	<u>1,391</u>	<u>86</u>

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

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

	Six months ended 30 September	
	2013	2012
Loss for the period attributable to the equity holders of the Company, HK\$'000	(14,558)	(36,959)
Weighted average number of ordinary shares in issue	1,529,600,200	1,529,600,200
Basic loss per share, HK cents	<u>(0.95)</u>	<u>(2.42)</u>

- (b) The calculation of diluted loss per ordinary share is based on the loss for the period attributable to equity holders of the Company and the weighted average number of ordinary shares used, which is the same for calculating basic loss per share above, as the Company did not have any dilutive potential ordinary shares arising from share options during the two periods ended 30 September 2013 and 2012.

7 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>
Six months ended 30 September 2013		
Opening net book value as at 1 April 2013	203,842	51,322
Additions	1,690	–
Disposals	(223)	–
Depreciation and amortization	(1,641)	(845)
Reclassified as assets held for sale (<i>Note 9</i>)	(86,833)	(30,732)
Exchange difference	4,020	1,789
	<u>120,855</u>	<u>21,534</u>
Closing net book value as at 30 September 2013		
Six months ended 30 September 2012		
Opening net book value as at 1 April 2012	246,217	66,909
Additions	49,764	–
Depreciation and amortization	(2,760)	(931)
Reclassified as investment property (<i>Note 8</i>)	(9,636)	(7,184)
Exchange difference	(2,158)	(585)
	<u>281,427</u>	<u>58,209</u>
Closing net book value as at 30 September 2012		

8 INVESTMENT PROPERTY

	Six months ended 30 September	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period	128,405	93,758
Reclassified from property, plant and equipment (<i>Note 7</i>)	–	9,636
Reclassified from land use rights (<i>Note 7</i>)	–	7,184
Reclassified as assets held for sale (<i>Note 9</i>)	(32,413)	–
Increase in value credited to profit and loss	–	245
Increase in value credited to other comprehensive income	–	13,016
Exchange difference	2,381	(826)
	<u>98,373</u>	<u>123,013</u>
At end of period		

9 ASSETS HELD FOR SALE AND LIABILITIES CLASSIFIED AS HELD FOR SALE

HK\$'000

Assets	
At 1 April 2013	87,901
Disposal of subsidiaries (<i>Note 14</i>)	(42,627)
Reclassified from property, plant and equipment (<i>Note 7</i>)	86,833
Reclassified from land use rights (<i>Note 7</i>)	30,732
Reclassified from investment property (<i>Note 8</i>)	32,413
Reclassified from construction in progress	4,367
Reclassified from other current assets	2,610
Exchange difference	<u>839</u>
At 30 September 2013	<u><u>203,068</u></u>
Liabilities	
At 1 April 2013	749
Disposal of subsidiaries (<i>Note 14</i>)	(749)
Reclassified from payables and accruals	<u>26,603</u>
At 30 September 2013	<u><u>26,603</u></u>

The additions of assets held for sale and liabilities classified as held for sale mainly represent the following:

- (i) On 4 July 2013, the Company, “U” Inns & Hotels Investment Limited (“UIHIL”) (你的客棧酒店有限公司) and Fortune Sea Group Limited (“FSG”) entered into an Asset Swap Agreement pursuant to which the Company conditionally agreed to acquire, and FSG conditionally agreed to dispose of, the shares of “U” Inns & Hotels Holdings Limited (“UIHHL”). The consideration payable for the UIHHL Shares will be satisfied by way of transfer of the shares of “U” Inns & Hotels (Xi’an) Management Co., Limited (“Xi’an”) (你的客棧(西安)酒店管理有限公司) to FSG. Hence, the assets and liabilities of Xi’an were classified as held for sale as at 30 September 2013.
- (ii) On 17 October 2013, UIHIL, an indirect wholly-owned subsidiary of the Company, entered into agreement with an independent third party to dispose the equity interest in “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 consideration of RMB19.0 million (equivalent to approximately HK\$23.9 million). On completion of the equity transfer, the estimated gain on the disposal is approximately HK\$6.9 million.

10 RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September	31 March
	2013	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current		
Deposits for acquisition of hotel properties	–	7,243
Current		
Trade receivables	–	107
Other receivables	1,932	2,851
Other prepayments and deposits	788	1,453
	<u>2,720</u>	<u>4,411</u>
	<u>2,720</u>	<u>11,654</u>

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

	30 September	31 March
	2013	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Between 1 and 3 months	–	107

11 PAYABLES AND ACCRUALS

	30 September	31 March
	2013	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	–	133
Property acquisition cost payable	1,570	1,604
Accrued expenses in respect of acquisitions of hotel properties	8,441	30,450
Other payables and accruals	7,894	17,850
Deposits received for disposal of equity interest in subsidiaries	45,509	57,310
	<u>63,414</u>	<u>107,347</u>

12 BORROWINGS

	30 September 2013 HK\$'000	31 March 2013 HK\$'000
Amount due to ultimate holding company	<u>471,048</u>	<u>448,383</u>

The amount due to ultimate holding company with effective interest rate at 10% (31 March 2013: 10%).

Pursuant to a written agreement dated 29 October 2013 entered into with VXLCP subsequent to the end of the reporting period, the repayment date of the loan due to the ultimate holding company of HK\$471.0 million has been extended to 1 October 2014.

13 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	30 September 2013 HK\$'000	31 March 2013 HK\$'000
Deferred income tax assets	2	2
Deferred income tax liabilities	<u>(20,172)</u>	<u>(19,805)</u>
	<u>(20,170)</u>	<u>(19,803)</u>

14 DISPOSAL OF SUBSIDIARIES

	30 September 2013 HK\$'000
Gain on disposal before taxation:	
Xiangfan	19,206
Tulufan	<u>6,989</u>
	<u>26,195</u>

14 DISPOSAL OF SUBSIDIARIES (Continued)

- (a) On 31 May 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of its wholly-owned subsidiary. “U” Inns & Hotel (Xiang Fan) Management Co., Limited (你的客棧(襄樊)酒店管理有限公司) (“Xiangfan”), to an independent third party, for a cash consideration of RMB24.9 million (equivalent to approximately HK\$31.3 million). The transaction was completed on 3 July 2013. The Group’s share of net assets of Xiangfan at the date of completion of disposal are as follows:

	<i>HK\$’000</i>
Net assets disposed of:	
Property, plant and equipment	24,878
Land use right	3,013
Receivables, prepayments and deposits	38
Bank balances and cash	4
Payables and accruals	<u>(18,759)</u>
 Total net assets	 <u><u>9,174</u></u>
 Gain on disposal of a subsidiary	
Consideration received and receivable	31,323
Net assets disposed of	(9,174)
Professional costs for the disposal of interests in subsidiaries	<u>(2,943)</u>
 Gain on disposal before taxation	 19,206
Less: taxation	<u>(432)</u>
 Gain on disposal after taxation	 <u><u>18,774</u></u>
 Net cash inflow arising on disposal:	
Consideration received and receivable	31,323
Professional costs associated with disposal of interests in subsidiaries	(2,943)
Taxation paid	(432)
Bank balances and cash disposed of	<u>(4)</u>
	<u><u>27,944</u></u>

14 DISPOSAL OF SUBSIDIARIES (Continued)

- (b) On 8 February 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of its wholly-owned subsidiary, “U” Inns & Hotel (Tu Lu Fan) Management Co., Limited (你的客棧(吐魯番地區)有限公司) (“Tulufan”), to an independent third party, for a cash consideration of RMB15.1 million (equivalent to approximately HK\$19.1 million). The transaction was completed on 1 July 2013. The Group’s share of net assets of Tulufan at the date of completion of disposal are as follows:

	<i>HK\$’000</i>
Net assets disposed of:	
Property, plant and equipment	13,579
Land use right	1,386
Receivables, prepayments and deposits	16,857
Construction in progress	97
Bank balances and cash	5
Payables and accruals	<u>(20,431)</u>
 Total net assets	 <u><u>11,493</u></u>
Gain on disposal of a subsidiary:	
Consideration received and receivable	19,092
Net assets disposed of	(11,493)
Professional costs for the disposal of interests in subsidiaries	<u>(610)</u>
 Gain on disposal before taxation	 6,989
Less: taxation	<u>(267)</u>
 Gain on disposal after taxation	 <u><u>6,722</u></u>
Net cash inflow arising on disposal:	
Consideration received and receivable	19,092
Professional costs associated with disposal of interests in subsidiaries	(610)
Taxation paid	(267)
Bank balances and cash disposed of	<u>(5)</u>
	<u><u>18,210</u></u>

MANAGEMENT'S COMMENTARIES

FINANCIAL PERFORMANCE REVIEW

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2013 (2012: Nil).

Turnover

The Group's turnover for the 6-month period ended 30 September 2013 of HK\$3.1 million (2012: HK\$3.1 million) comprised rental income, hotel rental income, and F&B revenue, contributed by Group's leasing operations located in Yingkou, Liaoning Province and Wuhan, Hubei Province and operating hotel located in Xiangfan, Hubei Province. Hotel rental income and F&B revenue decreased by HK\$0.9 million due to the disposal of the hotel on 31 May 2013. The Group generated rental income of HK\$2.5 million during the period.

Other gain

The Group recorded a net gain of HK\$28.3 million (2012: HK\$1.6 million) comprising realization of the gain from the completion of the disposals of two subsidiaries of HK\$26.2 million, compensation of HK\$1.1 million received from the termination of an acquisition of a hotel property in Chongqing, reversal provision of other payables and other miscellaneous gains of HK\$1.0 million.

Staff costs

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

Other operating expenses

During the period under review, other operating expenses were maintained at the same level as compared to the corresponding period. These costs comprised largely rent and rates, depreciation and utilities. The management will continue to implement measures to control and/or reduce these costs.

Finance costs

Finance costs during the period decreased slightly by HK\$1.0 million due to full repayment of a loan in February 2013 and conversion of the Preferred Shares into Common Shares on 1 November 2012.

Net loss after tax

The Group recorded a net loss after tax of HK\$9.5 million (2012: HK\$37.0 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained total bank and cash balance of HK\$132.1 million as of 30 September 2013. Cash deposits have been placed with major banks in Hong Kong and the PRC in the form of United States dollar, Hong Kong dollar and Renminbi deposits.

Subsequent to the reporting date, repayment date of the amount due to the ultimate holding company of HK\$471.0 million was extended to 1 October 2014.

On 17 October 2013, the Group successfully disposed of 100% equity interest of a subsidiary U Inns Tong Hua for RMB19.0 million (equivalent to approximately HK\$23.9 million). Together with the continuous financial support from the principal shareholder, the management is confident that the Group is able to meet its obligations.

As of 30 September 2013, the Group recorded a total shareholders' deficit of HK\$95.4 million. The Board is considering various proposals with a view to improving the situation.

SUBSEQUENT EVENTS

On 17 October 2013, UIHIL entered into the Equity Transfer Agreement with an individual third party to sell 100% equity holding of U Inns Tong Hua for the consideration of RMB19.0 million (equivalent to approximately HK\$23.9 million). The estimated gain of the disposal is approximately of RMB5.5 million (equivalent to approximately HK\$6.9 million).

Subsequent to the reporting date, repayment date of the amount due to the ultimate holding company of HK\$471.0 million was extended to 1 October 2014.

BUSINESS REVIEW AND CORPORATE DEVELOPMENT

The Group currently owns a total of 9 properties in its portfolio and maintains its strategies of developing them into budget hotels or commercial offices for leasing or sale, or, when appropriate, outright sales. The Group's leasing operations located in Yingkou, Liaoning Province, and Wuhan, Hubei Province contributed total revenue of HK\$1.2 million and HK\$1.3 million respectively for the period ended 30 September 2013. Subsequent to the period end, the Group is negotiating with a potential lessor to lease out the remaining floors of the property in Yingkou.

PROSPECTS

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

OTHER INFORMATION

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

During the six months ended 30 September 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

Compliance with the Corporate Governance Code

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

The Group has applied the principles and complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 September 2013, with the following deviations:

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

Pursuant to Code E.1.2 of the CG Code, the Chairman of the Board should attend the Annual General Meeting. Datuk Lim Chee Wah, the Chairman of the Board, was unable to attend the Annual General Meeting held on 4 September 2013 due to overseas business engagement.

Model Code For Securities Transactions by Directors

The Board has adopted its own code of conduct regarding securities transactions by directors (the “Model Code”) on terms no less exacting than the required standard set out in the “Model Code for Securities Transactions by Directors of Listed Issuers” of the Listing Rules. Having made specific enquiries with all Directors, the Directors confirmed that they have complied with the Model Code in their securities transactions during the six months ended 30 September 2013.

Audit Committee

The Audit Committee comprises all the Independent Non-executive Directors of the Company who possess appropriate business, legal, engineering and financial experience and skills to undertake the review of the financial statements in accordance with good practice of financial reporting. The Audit Committee is chaired by Mr. David YU Hon To and the other two members are Mr. Alan Howard SMITH, *J.P.* and Mr. Soo Ying Pooi. The unaudited interim results for the six months ended 30 September 2013 have been reviewed by the Audit Committee and the independent auditor.

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

13 November 2013

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

Executive Directors:

Datuk LIM Chee Wah

Mr. XIAO Huan Wei

Independent Non-Executive Directors:

Mr. Alan Howard SMITH, *J.P.*

Mr. David YU Hon To

Mr. SOO Ying Pooi