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 2008

The Board of Directors (the "Board") of VXL Capital Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2008 together with the comparative figures for the six months ended 30 September 2007.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

		For the six months ended	
		30 September 2008	30 September 2007
	Note	**HK$'000**	HK$'000
Continuing operations			
Revenue	2	**2,163**	5,511
Other operating income		**1,958**	378
Other gain/(loss), net	3	**1,456**	144,437
Staff costs		**(14,964)**	(12,454)
Write off of goodwill upon disposal of an investment property	9(b)	**(18,314)**	-
Other operating expenses		**(42,006)**	(16,718)
Operating (loss)/profit		**(69,707)**	121,154
Finance costs		**(56,106)**	(17,260)
Share of (loss)/profit of associates		**(85)**	1
(Loss)/profit before taxation		**(125,898)**	103,895
Taxation credit/(charge)	4	**30,825**	(24,663)
(Loss)/profit for the period from continuing operations		**(95,073)**	79,232
Discontinued operations			
Profit for the period from discontinued operations		**-**	3,837
(Loss)/profit for the period		**(95,073)**	83,069
Attributable to:			
- equity holders of the Company		**(94,215)**	83,069
- minority interest		**(858)**	-
		(95,073)	83,069
Basic and diluted earnings per ordinary share for (loss)/profit attributable to equity holders of the Company			
- Continuing operations	5	**HK (6.16) cents**	HK 5.18 cents
- Discontinued operations	5	**N/A**	HK 0.25 cents

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2008

	Note	**At 30 September 2008 HK$'000 (Unaudited)**	At 31 March 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**162,020**	141,825
Investment properties	6	**-**	995,219
Land use rights		**60,038**	37,379
Intangible asset		**4,470**	-
Interests in associates		**140**	225
Available-for-sale financial asset		**2,120**	660
		228,788	1,175,308
Current assets			
Financial assets at fair value through profit or loss		**13,450**	21,753
Receivables, prepayments and deposits	7	**21,883**	12,859
Deposit for acquisition of budget hotels		**49,289**	62,197
Restricted cash	8	**94,095**	-
Cash at banks and in hand		**70,632**	29,526
		249,349	126,335
Assets held for sale	9	**1,143,793**	179,314
		1,393,142	305,649
Current liabilities			
Payables and accruals	10	**41,400**	44,647
Deposits received from disposal of subsidiaries/property	11	**89,545**	32,200
Derivative financial instrument	12(b)	**16,245**	-
Borrowings	13	**478,137**	484,583
		625,327	561,430
Liabilities directly associated with assets held for sale	9	**632,571**	-
		1,257,898	561,430
Net current assets/(liabilities)		**135,244**	(255,781)
Total assets less current liabilities		**364,032**	919,527
Non-current liabilities			
Convertible notes	12(a)	**76,101**	-
Borrowings	13	**2,302**	475,360
Deferred tax liabilities		**-**	87,591
		78,403	562,951
Net assets		**285,629**	356,576
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**15,296**	15,296
Reserves		**268,918**	341,280
		284,214	356,576
Minority interest		**1,415**	-
Total equity		**285,629**	356,576

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed financial statements have been prepared under the historical cost convention, except as modified by the revaluation of the available-for-sale financial assets, the financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, and the investment properties, which are carried at fair value.

These condensed consolidated financial statements should be read in conjunction with the financial statements for the year ended 31 March 2008.

The accounting policies used in these condensed financial statements are consistent with those of the financial statements for the year ended 31 March 2008.

The following interpretations are mandatory for the first time for the financial year beginning 1 April 2008 but are not currently relevant to the Group.

HK(IFRIC) - Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) - Int 12	Service concession arrangements
HK(IFRIC) - Int 14	HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction

The following new standards and amendments to standards have been issued but are not effective for accounting period beginning 1 April 2008 and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 Amendment	Financial instruments: presentation
HKFRS 2 Amendment	Share-based payment
HKFRS 3 (Revised)	Business combinations
HKFRS 8	Operating segments

The Group is currently evaluating the effect of these standards and amendments to standards on the consolidated financial statements.

2. SEGMENT INFORMATION

Primary reporting format – business segments

The Group's 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 property investment segment is engaged in operation of the investment properties;
b) the hotel investment and management segment is engaged in hotel investment and hotel operations;
c) the securities trading and investment segment is engaged in securities trading and investment and other investment holding. The revenue of this segment mainly comprises net income from trading of securities; and
d) the unallocated segment comprises operations other than those specified in (a) to (c) above and includes that of the corporate office.

The Group's financial services operation was discontinued during the period ended 30 September 2007. There was no discontinued operation during the period ended 30 September 2008.

Capital expenditures comprise additions to property, plant and equipment, land use rights and investment properties (Note 6). Segment assets consist primarily of property, plant and equipment, land use rights, investment properties, goodwill, investments, assets held for sale (Note 9) and receivables. Segment liabilities comprise operating liabilities, liabilities associated with assets held for sale, deposits received for disposal of subsidiaries/property and bank loans (Notes 9, 10, 11 and 13). 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. Segment liabilities exclude items such as amount due to ultimate holding company and deferred tax liabilities.

The segment results, depreciation and amortization, and capital expenditures for the six months ended 30 September 2008 and 2007 are as follows:

	Property investment HK$'000	**Hotel investment & management HK$'000**	**Securities trading & investment HK$'000**	**Unallocated HK$'000**	**The Group HK$'000**
For the six months ended 30 September 2008					
Segment revenue:					
Sales to external customers	2,124	62	(23)	-	2,163
Segment results	(26,398)	(14,697)	(10,573)		(51,668)
Write off of goodwill upon disposal of an investment property	(18,314)	-	-	-	(18,314)
Change in fair value of derivative financial instruments (Note 3)	-	5,533	-	5,532	11,065
Change in fair value of the embedded derivatives component of convertible notes (Note 3)	-	5,354	-	5,355	10,709
Unallocated operating income and expenses, net					(21,577)
Finance income					78
Finance costs	(22,521)	(1,076)	-	(32,509)	(56,106)
Share of profits of associates					(85)
Loss before taxation					(125,898)
Taxation					30,825
Loss for the period					(95,073)
Other segment information					
Fair value loss on investment properties (Note 3)	8,190	-	-	-	8,190
Depreciation and amortization	122	5,211	-	578	5,911
Capital expenditures					
- Investment properties	124,223	-	-	-	124,223
- Property, plant and equipment	22	19,730	-	3,004	22,756
- Land use rights	-	22,424	-	-	22,424

	Continuing operations					Discontinued operations		
	Property investment HK$'000	**Hotel investment & management HK$'000**	**Securities trading & investment HK$'000**	**Unallocated HK$'000**	**Subtotal HK$'000**	**Financial services HK$'000**	**Elimination HK$'000**	**The Group HK$'000**
For the six months ended 30 September 2007								
Segment revenue:								
Sales to external customers	5,061	-	450	-	5,511	3,876	-	9,387
Inter-segment revenue	-	-	-	-	-	317	(317)	-
Total segment revenue	5,061	-	450	-	5,511	4,193	(317)	9,387
Segment results	108,115	(54)	35,729		143,790	462		144,252
Unallocated operating income and expenses, net					(22,636)	-		(22,636)
Finance costs	(6,731)	-	-	(10,529)	(17,260)	-		(17,260)
Profit on disposal of discontinued operations					-	2,189		2,189
Share of profits of associates					1	1,230		1,231
Profit before taxation					103,895	3,881		107,776
Taxation					(24,663)	(44)		(24,707)
Profit for the period					79,232	3,837		83,069
Other segment information								
Fair value gain on investment properties (Note 3)	109,152	-	-	-	109,152	-		109,152
Depreciation and amortization	162	-	-	1,548	1,710	22		1,732
Capital expenditures								
- Investment properties	9,751	-	-	-	9,751	-		9,751
- Property, plant and equipment	892	-	-	651	1,543	-		1,543

The segment assets and liabilities as at 30 September 2008 and 31 March 2008 are as follows:

	Property investment HK$'000	Hotel investment & management HK$'000	Securities trading & investment HK$'000	Unallocated HK$'000	The Group HK$'000
At 30 September 2008					
Segment assets	1,155,293	278,885	13,595	9,290	1,457,063
Interests in associates					140
Restricted cash					94,095
Cash at banks and in hand					70,632
Total assets					1,621,930
Segment liabilities	723,587	44,416	-	11,758	779,761
Other loans and convertible notes	58,336	38,050	-	269,566	365,952
Obligations under finance leases	-	-	-	3,346	3,346
Amount due to ultimate holding company					187,242
Total liabilities					1,336,301
At 31 March 2008					
Segment assets	1,182,866	238,259	21,754	8,327	1,451,206
Interests in associates					225
Bank balances and cash					29,526
Total assets					1,480,957
Segment liabilities	51,896	18,472	-	6,479	76,847
Bank and other loans	500,315	-	-	271,474	771,789
Obligations under finance leases	-	-	-	461	461
Amount due to ultimate holding company					187,693
Deferred tax liabilities					87,591
Total liabilities					1,124,381

Secondary reporting format – geographical segments

The Group's three business segments operate in Hong Kong and the PRC. The segment revenue and capital expenditures based on geographical segments for the six months ended 30 September 2008 and 2007 are as follows:

	For the six months ended				
	30 September 2008	30 September 2007			
	The Group	Continuing operations	Discontinued operations	Elimination	The Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue					
Hong Kong	2,101	5,511	4,193	(317)	9,387
PRC	62	-	-	-	-
	2,163	5,511	4,193	(317)	9,387
Capital expenditures					
Hong Kong	3,004	578	-	-	578
PRC	166,399	10,716	-	-	10,716
	169,403	11,294	-	-	11,294

Revenue is categorized based on the jurisdiction in which the customers are located, while capital expenditures are classified based on where the assets are located.

The segment assets based on geographical segments as at 30 September 2008 and 31 March 2008 are as follows:

	At 30 September 2008	At 31 March 2008
	HK$'000	HK$'000
Total assets		
Hong Kong	51,221	222,220
PRC	1,570,709	1,258,737
	1,621,930	1,480,957

Total assets are categorized based on where the assets are located.

3. OTHER GAIN/(LOSS), NET

	For the six months ended	
	30 September 2008	30 September 2007
	HK$'000	HK$'000
Unrealized (loss)/gain on financial assets at fair value through profit or loss	(12,128)	35,285
Change in fair value of derivative financial instruments (Note 12(b))	11,065	-
Change in fair value of the embedded derivatives component of convertible notes (Note 12(a))	10,709	-
Fair value (loss)/gain on investment properties	(8,190)	109,152
	1,456	144,437

4. TAXATION

Hong Kong profits tax is assessed at the statutory rate of 16.5% (six months ended 30 September 2007: 17.5%) on the assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	For the six months ended	
	30 September 2008	30 September 2007
	HK$'000	HK$'000
Continuing operations:		
Current tax	2	-
Deferred tax	(30,827)	24,663
	(30,825)	24,663
Discontinued operations:		
Current tax	-	44

5. BASIC AND DILUTED EARNINGS PER ORDINARY SHARE FOR (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Basic earnings per ordinary share are calculated by dividing the Group's (loss)/profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

	For the six months ended	
	30 September 2008	30 September 2007
(Loss)/profit attributable to the equity holders of the Company		
- from continuing operations, HK$'000	(94,215)	79,232
- from discontinued operations, HK$'000	-	3,837
Weighted average number of ordinary shares in issue	1,529,600,200	1,528,213,115
Basic earnings per share		
- from continuing operations, HK cents	(6.16)	5.18
- from discontinued operations, HK cents	-	0.25

Diluted earnings per ordinary share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares. The conversion of all potential ordinary shares arising from share options, convertible notes and warrants would have an anti-dilutive effect on the earnings per ordinary share for the period ended 30 September 2008. There were no convertible notes outstanding at 30 September 2007, and the conversion of all potential ordinary shares arising from share options and warrants would have an anti-dilutive effect on the earnings per ordinary share for the period ended 30 September 2007.

6. INVESTMENT PROPERTIES

	At 30 September 2008	At 31 March 2008
	HK$'000	HK$'000
At 1 April	995,219	891,561
Additions	124,223	39,175
Fair value (loss)/gain	(8,190)	143,251
Exchange difference	29,649	82,150
At 30 September/31 March	1,140,901	1,156,137
Less amount classified as assets held for sale (Note 9)	1,140,901	160,918
	-	995,219

The Group has entered into a sale and purchase agreement to dispose of its equity interest in Moral High Limited ("MHL"). Accordingly, the investment properties, namely Changshou Properties, held by MHL's subsidiary were reclassified as "Assets held for sale". The details of the disposal are discussed in Note 9(a).

7. RECEIVABLES, PREPAYMENTS AND DEPOSITS

Included in receivables, prepayments and deposits are trade receivables of HK$Nil (31 March 2008: HK$384,000). The ageing analysis of the trade receivables is as follows:

	At 30 September 2008	At 31 March 2008
	HK$'000	HK$'000
Within 1 month	-	384

8. RESTRICTED CASH

Restricted cash represented balances of HK$89.5 million deposited in escrow account to be released upon completion of disposal of Changshou Properties and HK$4.5 million held in escrow account as reserve for interest payable to the convertible noteholders.

9. ASSETS HELD FOR SALE

(a) Disposal of equity interest in a subsidiary – Moral High Limited

MHL is a wholly-owned subsidiary of the Company and an investment holding company holding 100% equity interest in the registered capital of Peak Moral High Commercial Development (Shanghai) Limited ("Peak Moral High"). The principal asset of Peak Moral High is Changshou Properties.

On 4 June 2008, the Group entered into a sale and purchase agreement to dispose of 90% interest in MHL. As at 30 September 2008, the Group has received an initial deposit of US$11.5 million (equivalent to approximately HK$89.5 million), which was deposited in escrow account (Note 8).

On 22 October 2008, the Group has entered into an amendment agreement with the purchaser, under which the percentage of equity interest in MHL being sold was revised to 95% and the gross consideration (before netting off with loans and liabilities) was revised to RMB1,000 million. Details of this disposal have been disclosed in the Company's announcements to shareholders dated 13 June 2008, 23 October 2008 and 5 November 2008.

Therefore, as at 30 September 2008, the related assets and liabilities of MHL and Peak Moral High have been reclassified as held for sale and are presented separately in the consolidated balance sheet.

The disposal of Changshou Properties has been completed on 5 November 2008.

In the opinion of the directors, the fair value of Changshou Properties was approximately RMB1,000 million as at 30 September 2008, which was also the revised gross consideration of Changshou Properties agreed with the purchaser.

The assets and liabilities of MHL and Peak Moral High are classified as held for sale as follows:

	At 30 September 2008
	HK$'000
Assets held for sale:	
Property, plant and equipment	986
Investment property (Note 6)	1,140,901
Trade and other receivables	1,761
Cash at banks and in hand	145
	1,143,793
Liabilities associated with assets held for sale:	
Trade and other payables	96,168
Bank borrowings	477,752
Deferred tax liabilities	58,651
	632,571

As at 30 September 2008, the Group has commitment regarding disposal costs of the aforesaid transaction in the amount of HK$10.8 million.

(b) Disposal of an investment property – 112 Apartments

On 7 December 2007, the Group entered into a sale and purchase agreement to dispose of a block of service apartments, 112 Apartments. The assets classified as held for sale at 31 March 2008 were as follows:

	At 31 March 2008
	HK$'000
Property, plant and equipment	82
Investment property (Note 6)	160,918
Goodwill	18,314
	179,314

The disposal of 112 Apartments was completed on 12 June 2008. The goodwill and deferred tax liabilities associated with 112 Apartments were written off as “Other operating expenses” and “Taxation” respectively, in the consolidated income statement during the period ended 30 September 2008.

10. PAYABLES AND ACCRUALS

Included in payables and accruals are trade payables of HK$Nil (31 March 2008: HK$163,000). The ageing analysis of the trade payables is as follows:

	At 30 September 2008	At 31 March 2008
	HK$'000	HK$'000
Within 1 month	**-**	132
Between 1 and 3 months	**-**	31
	-	163

11. DEPOSITS RECEIVED FROM DISPOSAL OF SUBSIDIARIES/PROPERTY

	At 30 September 2008	At 31 March 2008
	HK$'000	HK$'000
Deposits received from disposal of subsidiaries	**89,545**	-
Deposits received from disposal of property	**-**	32,200
	89,545	32,200

The amounts represented the initial deposits received from the purchasers in respect of disposal of equity interest in MHL and disposal of an investment property, 112 Apartments, as at 30 September 2008 and 31 March 2008 respectively. The details of the disposals are explained in Note 9.

12. DERIVATIVE FINANCIAL INSTRUMENT AND CONVERTIBLE NOTES

On 29 August 2008, the Company entered into a subscription agreement with a third party subscriber to issue a two-year convertible note ("Notes") in an aggregate amount of US$15 million with an option granted to the subscriber to subscribe for the second tranche of the Notes in an aggregate amount of US$23 million. On 9 September 2008, the Company issued the first tranche of the Notes with a face value of US$15 million (equivalent to approximately HK$117.1 million). The Notes can be converted into ordinary shares of the Company at any time after issuance at a conversion price of HK$0.97 per ordinary share (subject to anti-dilutive adjustments) and bear interest at LIBOR plus 5% per annum. The noteholder has the right to put the Notes back to the Company after one and half year of issuance or the Company will be required to redeem the Notes upon maturity, i.e. two years after issuance. In either case, the noteholder will be entitled to a redemption amount representing a yield of 22% per annum. Details of the Notes can be referred to the Company's announcements dated 24 July 2008 and 29 August 2008. No conversion has been made during the period.

According to HKAS 39, "Financial Instruments – Recognition and Measurement", the first tranche of the Notes should be separated into the following components: a derivative component representing the option to subscribe for the second tranche of the Notes (the "Second Tranche Option") and embedded derivatives consisting of a conversion option, a put option and other options (collectively the "ED Options"), and a liability component.

(a) Convertible notes

The convertible notes recognized in the consolidated balance sheet was arrived at as follows:

	At 30 September 2008 HK$'000
Proceeds of issue	117,086
Second Tranche Option	(27,399)
ED Options	(27,809)
Liability component at date of issue	61,878
Less: issuance costs	(4,683)
Interest expense	2,071
Issuance costs amortized	141
Exchange difference	(312)
Liability component at 30 September 2008	**59,095**
ED Options at date of issue	27,809
Change in fair value	(10,709)
Exchange difference	(94)
ED Options at 30 Sepetmber 2008	**17,006**
Carrying value of convertible notes	**76,101**

(b) Derivative financial instrument

Details of the Second Tranche Option classified as “Derivative financial instrument” are as follows:

	At 30 September 2008 HK$'000
Second Tranche Option at date of issue	27,399
Change in fair value	(11,065)
Exchange difference	(89)
Derivative component - Second Tranche Option at 30 September 2008	16,245

13. BORROWINGS

	At 30 September 2008 HK$'000	At 31 March 2008 HK$'000
Non-current		
Bank loans	-	475,090
Obligations under finance leases	2,302	270
	2,302	475,360
Current		
Bank loans	-	25,225
Other loans	289,851	271,474
Obligations under finance leases	1,044	191
Amount due to ultimate holding company	187,242	187,693
	478,137	484,583
	480,439	959,943

DIRECTORS' COMMENTARIES

FINANCIAL REVIEW

Turnover

In June 2008, the Group has completed the disposal of 112 Apartments in Hong Kong. As a result, the rental revenue has dropped by 60.7% as compared to the corresponding period in 2007.

Since 2007, the Group has acquired and committed to acquire a portfolio of 29 hotels from the China Post Group. The initiative is to build a hospitality chain for the Group under the brand of "U" Inn hotel in provincial capitals and other fast-growing cities in the PRC. During the six months, the Group has started the refurbishment and re-branding of some hotels. It is expected that the first batch of 5 hotels will be opened in the first half of 2009 and generate revenue for the Group.

Staff Costs and Other Operating Expenses

Staff costs and other operating expenses for the period under review amounted to HK$57.0 million. The increase was mainly due to costs incurred in the Changshou Properties and the expansion of "U" Inn hotel group.

In the last six months, a total cost of HK$19.5 million including property management fee, consultancy fee and property tax were incurred on Changshou Properties. These costs would not be incurred in the future after the disposal of Changshou Properties to Blackstone Group L.P. was completed on 5 November 2008.

For the “U” Inn hotels, the Group has established management teams and operation teams in the asset group, hotel management group and the IT group. These additional headcounts and operating costs for “U” Inn group have attributed to an operating cost of HK$14.8 million for the six-month period.

Other than the costs incurred in the above mentioned projects, the staff costs and other operating expenses of the Group are comparable to the corresponding period in 2007.

Net loss after tax

The Group recorded a net loss after tax of HK$95.1 million. This was mainly attributed to the staff and operating costs in commissioning Changshou Properties and the set up of “U“ Inn group. In addition, the finance cost for the six months has increased significantly to HK$56.0 million as compared to the six months in 2007, as a result from additional loans drawn down to finance the Changshou Properties and the acquisition of budget hotels.

The completion of disposal of Changshou Properties will reduce our total borrowings and our operating and finance costs in the second half of the financial year.

Liquidity, Financial Resources and Capital Structure

The Group maintained a bank and cash balance of HK$164.7 million as of 30 September 2008, of which HK$89.5 million was deposited in escrow account and will be released upon completion of disposal of Changshou Properties; HK$4.5 million was held in escrow account as security for the convertible note interest payment. Cash deposits had been placed with major banks in Hong Kong and the PRC in Hong Kong dollar, US dollar and Renminbi deposits.

As at 30 September 2008, the Group had other loans of HK$478.1 million due within one year, a 2-year convertible note payable with a face value of HK$117.0 million, and obligations in finance leases of HK$3.3 million maturing within five years.

As of 30 September 2008, the gearing ratio of the Group was 153.1%, which is measured on the basis of the Group’s total interest-bearing debt net of cash reserves over shareholders’ funds. The ratio was reduced by approximately 41% from that of 31 March 2008 as a result of our conscientious effort in monitoring the liquidity position of the Group.

After the completion of disposal of Changshou Properties in November 2008, the bank loans on Changshou Properties has been assigned to the purchaser and other borrowings of HK$231.0 million has been repaid. The group’s gearing ratio has improved significantly.

BUSINESS REVIEW AND OUTLOOK

During the period under review, China's tourism and hotel industries were facing new challenges arising from the financial tsunami, the exceptionally severe snowstorms in the central and southern regions of China and the "5.12" Sichuan earthquake. Despite all these disasters, the success of Beijing Olympics 2008 did not only enhance the pride of the Chinese people, but also provide an opportunity for China to expose its culture and history to the world. The Group is taking advantage of these rising opportunities in China with a focus on propitious investments, particularly in the tourism related real-estate investment. Along with a prudent attitude on investment and being conscious of underlying market risks, the Group is confident to ride out the financial tsunami.

Budget Hotels in the PRC

Budget hotels remain one of the main focuses of the Group's business development. In terms of budget hotel network expansion, as at 30 September 2008, the Group acquired and committed to acquire 29 hotels spreading across various vibrant cities throughout the PRC.

The setting up of management teams, operations teams in the asset acquisition group, hotel management group and the IT group has built up a strong base to re-brand and upgrade the acquired hotels to a quality portfolio under the "U" Inn hotels brand. The overall refurbishment of "U" Inn hotels has commenced during the second half of 2008 and will continue to progress according to schedule. Since the "U" Inn group is still in the development stage, the Group does not expect any positive contribution of net profit from the "U" Inn hotels in the near future. It is expected that the "U" Inn hotels brand will launch the first five hotels in the first half of 2009.

The business conditions will generally remain challenging in 2009. However, the outlook for the budget hotel market will be optimistic as more travellers and tourists trade down their accommodation choices from star-rated hotels to budget hotels.

In this challenging environment, the Group will continue to focus its priorities on hotel refurbishments, keep costs under control; and continue to secure new opportunities while enhancing the brand and services delivery.

Investment Properties

(a) 112 Apartments: Serviced apartment tower in Hong Kong

The Group entered into a Sale and Purchase Agreement with a third party investor for the disposal of 112 Apartments at a consideration of HK$161.0 million on 7 December 2007. The Group acquired 112 Apartments in September 2005 at a consideration of HK$110.0 million. The disposal was completed in June 2008.

(b) Changshou Properties: Retail spaces in Shanghai

In November 2008, the Group had completed the disposal of the North Block and South Block of the property development known as Changshou Commercial Plaza situated in Putuo District, Shanghai, PRC ("Changshou Properties"). Under the heads of agreement, the Group agreed to sell 95% equity interests of a wholly-owned subsidiary – Moral High Limited ("Moral High") to a company which is indirectly controlled by affiliates of the Blackstone Group L.P. Moral High is the holding company of Peak Moral High Commercial Development (Shanghai) Limited which owns Changshou Properties. The net consideration for the 95% interests in Moral High in a sum of RMB536.7 million (equivalent to approximately HK$601.1 million) was derived from the independent valuation of Changshou Properties at RMB1,000.0 million (equivalent to approximately HK$1,120.0 million) after netting off the outstanding bank loan of RMB435.0 million (equivalent to approximately HK$477.2 million). The disposal reflects a remarkable capital appreciation of approximately RMB276.0 million (equivalent to approximately HK$309.1 million) since the Group has completed the acquisition of Changshou Properties in January 2007.

The completion of disposal of Changshou Properties will improve the gearing ratio, and reduce the operating and finance costs of the Group in the second half of the year.

Kai Tak Cruise Terminal Project

On 30 September 2008, the HKSAR Government has decided to finance the Kai Tak Cruise Terminal by fully bearing its HK$7-billion construction in order to assure the project is due for completion in mid-2013. The second tender of the Terminal was then ceased. The HKSAR Government plans to lease the terminal facilities to cruise operators upon completion with a tenancy agreement of about seven to ten years.

Issue of Convertible Notes

On 24 July 2008, the Company announced issuance of Convertible Notes ("Notes") in the aggregate principal amount of US$38.0 million (equivalent to approximately HK$296.4 million). The Notes comprise the First Tranche Notes and the Second Tranche Notes, with principal amounts of US$15.0 million (equivalent to approximately HK$117.0 million) and US$23.0 million (equivalent to approximately HK$179.4 million) respectively. Upon full conversion of the Notes at the initial conversion price of HK$0.97 per share, an aggregate of 305,567,010 conversion shares will be issued by the Company.

On 9 September 2008, the Company has issued the Notes in an aggregate principle amount of US$15.0 million (equivalent to approximately HK$117.0 million). Proceeds from the issue of Notes were for working capital and the expansion and investment in the Group's budget hotel related projects in the PRC.

The Notes issued have remained outstanding as at 30 September 2008, as there was no conversion of the Notes made by the subscriber. The issue of the Notes would significantly improve the Group's short term cashflow and assist in the financing of acquisition and renovation of hotel properties.

The second tranche of the convertible notes is an option open to the subscriber with an option period of 90 days from the date when the First Tranche Notes drawn. Such option has been extended for another 90 days in December 2008. The terms of the Second Tranche Notes are same as the First Tranche Notes drawn.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2008 (2007: Nil).

OTHER INFORMATION

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

During the six months ended 30 September 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

Compliance with the Code on Corporate Governance Practices

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

The Group has applied the principles of and complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the six months ended 30 September 2008, with minor deviations as stated below.

Pursuant to Code A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term. All 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 the board consists of six directors and each of them retires in every three year, this effectively achieves the same objective as set out in the CG Code.

Model Code For Securities Transactions by Directors

The Board has adopted its own code of conduct regarding securities transactions by Directors ("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, all the Directors have complied with the Model Code in their securities transactions during the six months ended 30 September 2008.

Internal Audit
The Company has appointed Mabel Chan & Co. ("Internal Auditors") to provide internal audit services to the Group for the financial year ending 31 March 2009. The Internal Auditors have completed their review for the six months ended 30 September 2008 and concluded the Company has controlled over significant risk areas and there are no major weakness in internal control system identified.

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

Audit Committee
The Audit Committee comprises all the independent non-executive directors who possess appropriate business, legal, engineering and financial experience and skills to undertake review of financial statements in accordance with good practice of financial reporting. The Audit Committee is chaired by Mr. David YU Hon To and the other two members are Mr. Alan Howard SMITH, J.P. and Dr. Allen LEE Peng Fei, J.P.. The unaudited interim results for the six months ended 30 September 2008 have been reviewed by the Audit Committee.

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

Hong Kong, 15 December 2008

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

Executive directors:	*Independent non-executive directors:*
Datuk LIM Chee Wah	Mr. Alan Howard SMITH, J.P
Mr. Percy ARCHAMBAUD-CHAO	Dr. Allen LEE Peng Fei, J.P.
Mr. XIAO Huan Wei	Mr. David YU Hon To