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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 TRANSACTION
RELATING TO
ACQUISITION OF HOTEL PROPERTIES**

Financial adviser to VXL Capital Limited


Optima Capital Limited

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Agreement”	the agreement dated 23 October 2007 (as supplemented) entered into among the Vendors and the “U” Inns Companies in relation to the transfer of the Properties
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	VXL Capital Limited (卓越金融有限公司), a company incorporated in Hong Kong with limited liability, the shares and warrants of which are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“Enlarged Group”	the Group after completion of the Second Acquisition
“First Acquisition”	the acquisition by the Group of interests in 11 budget hotels from China Post Group as announced by the Company on 11 June 2007
“First Announcement”	the announcement of the Company dated 11 June 2007 in relation to the First Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	12 December 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“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 Macao Special Administrative Region and Taiwan
“Properties”	the 5 hotel assets to be sold to the “U” Inns Companies by the Vendors pursuant to the terms of the Agreement
“RHL”	RHL Appraisal Ltd., an independent professional property valuer
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Second Acquisition”	the acquisition of the Properties by the “U” Inns Companies pursuant to the Agreement

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option(s)”	an option(s) to subscribe for Shares pursuant to the share option scheme adopted by the Company at annual general meeting of the Company held on 3 June 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“UAE”	Shanghai United Assets and Equity Exchange
“ “U” Inns Companies”	你的客棧(隴南)酒店管理有限公司 (“U” Inns & Hotels (Long Nan) Management Co., Ltd *); 你的客棧(營口)酒店管理有限公司 (“U” Inns (Yingkou) Hotel Management Co. Ltd *); 西藏林芝你的客棧酒店管理有限公司 (“U” Inns & Hotels Management Co., Ltd Linzhi Tibet *); 你的客棧(瓦房店)酒店管理有限公司 (“U” Inns (Wafangdian) Hotel Management Co. Ltd *); and 你的客棧酒店(濰坊)有限公司 (“U” Inns & Hotel (WeiFang) Limited *), each a wholly-owned subsidiary of the Company established in the PRC
“Vendors”	甘肅省郵政公司 (Gansu Post Company*); 遼寧省郵政公司 (Liaoning Post Company*); 西藏自治區郵政公司 (Tibet Autonomous Region Post Company*); and 山東省郵政公司 (Shandong Post Company*), each a State-owned enterprise under China Post Group
“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 of the Company
“Warrants”	listed warrants of the Company (stock code: 831)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq. m.”	square metre

For illustration in this circular, figures denominated in RMB are translated into HK\$ at the approximate exchange rate of RMB1 to HK\$1.03.

*Certain English translations of Chinese names or words marked with * in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.*

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. Percy ARCHAMBAUD-CHAO

Ms. Patsy SO Ying Chi

Registered office:

Suite 2707-8, One Exchange Square

8 Connaught Place

Central

Hong Kong

Independent non-executive Directors:

Mr. Alan Howard SMITH, J.P.

Dr. Allen LEE Peng Fei, J.P.

Mr. David YU Hon To

14 December 2007

To the Shareholders and, for information only, the Warrantholders

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO ACQUISITION OF HOTEL PROPERTIES

INTRODUCTION

On 24 October 2007, the Board announced that after trading hours on 23 October 2007, the “U” Inns Companies, each a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendors pursuant to which the Vendors shall sell and the “U” Inns Companies shall purchase the Properties for an aggregate consideration of approximately RMB120.3 million (equivalent to approximately HK\$123.9 million).

The Second Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Second Acquisition, when aggregated with the First Acquisition pursuant to Rule 14.22 of the Listing Rules, constitutes a major transaction for the Company and is therefore subject to the approval of the Shareholders. As no Shareholder has a material interest in the First Acquisition and the Second Acquisition which is different from that of the other Shareholders, no Shareholder is required to abstain from voting on the Second Acquisition. VXLCP, which is beneficially interested in approximately 50.29% of the total issued Shares as at the date of the Agreement, has given written consent to the Second Acquisition. The written consent from VXLCP is accepted in lieu of holding a general meeting to approve the Second Acquisition pursuant to Rule 14.44 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, information relating to the Second Acquisition and the Group.

THE AGREEMENT

Date:

23 October 2007 (after trading hours)

LETTER FROM THE BOARD

Parties:

- (i) the Vendors, each a State-owned enterprise in the PRC under China Post Group. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Vendors and their holding company are third parties independent of the Company and its connected persons (as defined in the Listing Rules); and
- (ii) the "U" Inns Companies, each a wholly-owned subsidiary of the Company established in the PRC.

Apart from the First Acquisition, the Company has not involved in any previous transaction with China Post Group which would otherwise require aggregation with the Second Acquisition pursuant to Rule 14.22 of the Listing Rules and it has no relationship with the Vendors and China Post Group.

The "U" Inns Companies are special purpose vehicles formed solely for the purpose of holding the Properties. Save for the entering into the agreements of the First Acquisition and the Second Acquisition, the "U" Inns Companies have not engaged in any other business since incorporation.

Assets to be acquired:

Subject to the terms and conditions of the Agreement, the Vendors shall sell and the "U" Inns Companies shall acquire from the Vendors the Properties, which comprise 5 hotel assets located in the Gansu, Liaoning and Shandong provinces and Tibet Autonomous Region. A brief description of the Properties is set out below:

Hotel	Land area (sq. m.)	Construction area (sq. m.)	Valuation as at 31 December 2006 released by the Vendors through UAE (RMB)	Name of valuer appointed by Vendors	Brief Description
甘肅隴南市郵政賓館 (Gansu Longnan Post Hotel*)	765	4,635	18,087,600	中華財務會計諮詢 有限公司 (China Consultants of Accounting and Financial Co., Ltd.*)	A three-star hotel constructed in 2001 and commenced operations in 2002
遼寧營口市鯪魚園郵政大廈 (Liaoning Yingkou Boyuquan Post Hotel*)	2,965	13,281	38,058,800	北京德祥資產評估 有限責任公司 (Beijing Dexiang Assets Appraisal Co., Ltd.*)	A three-star hotel established in 1995
西藏林芝地區郵政大酒店 (Tibet Linzhi Post Hotel*)	4,252	6,997	16,651,900	北京中企華資產 評估有限責任公司 (Beijing Enterprise Appraisal Co., Ltd.*)	A two-star hotel commenced operations in 2001
遼寧瓦房店郵政賓館 (Liaoning Wafangdian Post Hotel*)	1,104	11,088	27,007,100	北京德祥資產 評估有限責任公司 (Beijing Dexiang Assets Appraisal Co., Ltd.*)	A 14-level hotel constructed in 1998
山東濰坊市郵電賓館 (Shandong Weifang Post Hotel*)	2,200	14,404	33,893,300	北京德祥資產 評估有限責任公司 (Beijing Dexiang Assets Appraisal Co., Ltd.*)	A three-star hotel established in 1996
Total	11,286	50,405	133,698,700		

LETTER FROM THE BOARD

Shandong Weifang Post Hotel has already ceased operation as at the date of the Agreement. It is agreed that the hotel operations of all the Properties shall cease before completion of the Agreement and the Properties shall be delivered to the “U” Inns Companies on a vacant possession basis.

RHL, a firm of independent professional property valuers, was appointed by the Company to prepare the valuation report of the Properties which is contained in Appendix III to this circular. One of the Properties, 遼寧瓦房店郵政賓館 (Liaoning Wafangdian Post Hotel), was valued at RMB28.0 million (equivalent to approximately HK\$28.8 million) as at 31 October 2007. RHL attributed no commercial value to the other four Properties because the land use rights of these four Properties were allocated in nature. The alienation of these properties is restricted and the properties cannot be freely transferred, sublet and mortgaged. It is expected that the Vendors will cooperate with the Group to complete the land use rights grant process. According to the PRC legal opinion regarding the Properties, there is no legal impediment for the transfer of the allocated land. For reference purpose, RHL is of the opinion that the market value of these four Properties in its existing status as at 31 October 2007, assuming all land premium, taxes and expenses have been fully settled and these Properties are entitled to be freely disposed of in the market, would be approximately RMB109.0 million (equivalent to approximately HK\$112.3 million). On this basis, the aggregate valuation of all the Properties is estimated to be approximately RMB137.0 million (equivalent to approximately HK\$141.1 million) as at 31 October 2007.

Consideration and payment terms:

Set out below is a summary of the consideration of each of the Properties:

Hotel	Consideration (RMB)
甘肅隴南市郵政賓館(Gansu Longnan Post Hotel*)	16,278,840
遼寧營口市鱈魚圈郵政大廈(Liaoning Yingkou Boyuquan Post Hotel*)	34,252,933
西藏林芝地區郵政大酒店(Tibet Linzhi Post Hotel*)	14,986,710
遼寧瓦房店郵政賓館(Liaoning Wafangdian Post Hotel*)	24,306,382
山東濰坊市郵電賓館(Shandong Weifang Post Hotel*)	30,503,940
Total	<u>120,328,805</u>

The aggregate consideration for the Properties is approximately RMB120.3 million (equivalent to approximately HK\$123.9 million) which are payable in cash as follows:

- (i) a payment of RMB36.1 million (representing 30% of the aggregate consideration and equivalent to approximately HK\$37.2 million) within 10 business days after signing of the Agreement; and
- (ii) the balance of RMB84.2 million (representing the balance of 70% of the aggregate consideration and equivalent to approximately HK\$86.7 million), together with interest calculated at the applicable bank interest rate, shall be payable upon completion of all necessary registration procedures in relation to the transfer of the title of the Properties or on the date falling six months from the date of the Agreement, whichever is the earlier. The payment obligations of the “U” Inns Companies in respect of this balance payment shall be guaranteed by the Company.

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As part of the registration procedures for the transfer of the Properties, separate sale and purchase agreements are required to be entered into between the relevant “U” Inns Companies and the Vendors for each of the Properties. As at the Latest Practicable Date, all the agreements have been entered into which reflect the same principal terms as those contained in the Agreement and are being reviewed by UAE. The Directors confirm that there are no material variations of the terms of the Agreement made in the separate sale and purchase agreements and all the material terms of the sale and purchase agreements have been disclosed in this circular. As the “U” Inns Companies require the certificates from UAE on the sale and purchase agreements to arrange for fund transfer, the payment referred to in (i) above has not been made as at the Latest Practicable Date. The parties to the Agreement have agreed that such payment will be made after the certificates from UAE on the sale and purchase agreements have been obtained, which is expected to be within December 2007.

The consideration is determined based on an open tender process conducted through UAE and is equivalent to the ask price by the Vendors and the bid price submitted by the “U” Inns Companies. UAE is an organization approved by the Shanghai Municipal Government which serves as a comprehensive platform for assets and equity transactions. To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, UAE is a third party independent of the Company and its connected persons (as defined in the Listing Rules) and it has no relationship with the Group, the Vendors and China Post Group.

Condition:

Completion of the Agreement is subject to the completion of all necessary registration procedures with relevant government authorities in the PRC in respect of the transfer of the title of the Properties. The Vendors shall provide necessary assistance to the “U” Inns Companies to complete the procedures. If the aforesaid registration procedures for any of the Properties cannot be completed due to reasons unrelated to the Vendors or the “U” Inns Companies within one year from the date of the Agreement, the “U” Inns Companies shall have the right to be refunded of the relevant portion of consideration paid on those particular Properties.

REASONS FOR THE SECOND ACQUISITION

The Group is principally engaged in property related investment. Currently the Group holds a block of serviced apartment in Hong Kong as well as a retail and commercial development in Shanghai. A conditional sale and purchase agreement was signed by the Group on 26 November 2007 to dispose of the serviced apartment (details of which are set out in the announcement of the Company dated 27 November 2007).

The Second Acquisition is part of the Group’s strategy to acquire a scalable network of hotel properties and extend its reach to and build up its property portfolio in various provinces in the PRC as described in the First Announcement. Similar to the properties acquired in the First Acquisition (which has not yet been completed as at the Latest Practicable Date), the Board intends to revamp the Properties and upgrade the facilities available at the Properties, with a view to establishing a brand name for quality budget hotel chain in the PRC. The Group intends to identify appropriate management company to manage the hotel operations of the Properties and the Group will receive rental income from the Properties.

The Directors (including the independent non-executive Directors) consider that the terms of the Agreement (including the consideration for the Second Acquisition) are on normal commercial terms and are fair and reasonable, and the Second Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

BUDGET HOTEL BUSINESS IN THE PRC

Budget hotels are commonly referred to as hotels charging economical room rates. According to the China Hotel Association, budget hotel business was introduced to the PRC only a few years ago. Unlike traditional star-rated hotels, budget hotels may not contain luxurious or leisure facilities such as swimming pool, spacious meeting rooms or conference services. Nevertheless, with its comfortable and clean accommodations and convenient lodging services at an inexpensive price, budget hotels are becoming popular among the domestic travelers in the PRC for both leisure and business purposes. The Board sees an enormous market for budget hotels in the PRC. The following is an overview of the budget hotel industry in the PRC.

Growth of domestic tourism in the PRC

The economy in China has been growing rapidly in recent years. As set out in Table 1 below, gross domestic product (GDP) has been increasing by 10% to 18% each year in this decade. GDP per capita in the PRC has been growing from RMB7,858 in 2000 to RMB14,040 in 2005, representing a compound annual growth rate (CAGR) of approximately 12.3%.

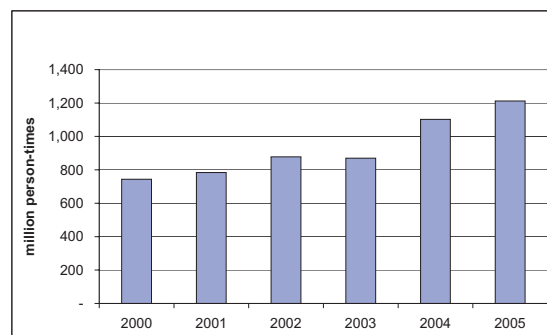
Table 1 – Gross domestic product

	2000	2001	2002	2003	2004	2005	CAGR
GDP (RMB billion)	9,800.0	10,806.8	11,909.5	13,517.4	15,958.6	18,395.6	13.4%
GDP per capita (RMB)	7,858	8,622	9,398	10,542	12,336	14,040	12.3%

Source: China Statistical Year Book 2006

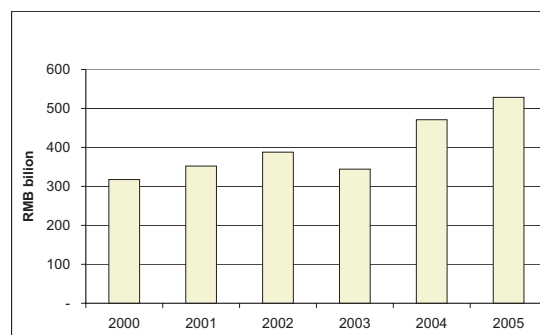
With the increasing disposable income for its citizens, domestic tourism is becoming popular in the PRC. As shown in Charts 2 and 3 below, domestic tourists increased from 744 million person-times in 2000 to 1,212 million person-times in 2005, representing an increase of 62.9%, or a CAGR of 10.3%. During 2004 when the economy recovered from the SARS outbreak in 2003, domestic tourism revenue increased by 36.9% from RMB344 billion in 2003 to RMB471 billion in 2004. For the year 2005, domestic tourism revenue amounted to RMB529 billion, representing a 12.3% growth from 2004. In 2005, spending in domestic tourism per capita of urban residents amounted to RMB737.1 while that of rural residents amounted to RMB436.1.

Chart 2 – Domestic tourist



Source: China Statistical Year Book 2006

Chart 3 – Domestic tourism revenue



Source: China Statistical Year Book 2006

According to the China Economy Hotel Survey 2007 (*Note*), the majority (90%) of the guests of budget hotels are domestic travelers, while only 10% of the guests are foreign visitors. The domestic travelers are generally price conscious with modest budget. According to the same survey, room rate of budget hotels generally ranges from RMB100 to RMB300. Budget hotels, especially those developed

LETTER FROM THE BOARD

under chains of brand name which provide comfortable accommodations and offer standardized quality and cleanliness at an economical price, are therefore more widely accepted by domestic travelers than expensive luxurious star-rated hotels or unstandardised guesthouses with poor services.

Note:

According to the China Economy Hotel Survey 2007 conducted by China Hotel Association (中國飯店協會), with the consent of the China's Ministry of Commerce, Department of Commercial Reform and Development (商務部商業改革發展司), in the course of the survey, questionnaires were distributed to all enterprises in the budget hotel industry of the PRC with more than 5 hotels opened or more than 500 hotel rooms being operated. The report is based on the responses by 19 enterprises, estimated to represent over 60% market share of the budget hotel industry in the PRC.

Furthermore, according to China Tourism Year Book 2006, the PRC government has put significant efforts on boosting tourism. The local tourism bureau of Gansu, Shandong, Liaoning and Tibet Autonomous Region where the Properties are located have been conducting promotional campaigns such as participating in exhibitions in Hong Kong and foreign countries to promote new routes and tourists sites. In particular, the tourism bureau of Gansu province, together with other nearby provinces in the west Mainland, has been promoting the famous historical sites along the "Silkroad", while Tibet Autonomous Region continues to promote its magnificent scenery of Mount Everest as well as other historical temples and cultural sites in the area. As shown in Table 4 below, the promotional activities of these provinces have successfully boosted tourism in the area, with the number of tourists increased by more than 20% in most of these provinces / regions in the year 2005.

Table 4 – Number of tourists (person-times)

	2004	2005	% increase
Gansu	236,700	288,500	21.9%
Tibet	95,800	121,300	26.6%
Shandong	1,193,100	1,551,010	30.0%
Liaoning	1,080,800	1,302,000	20.5%

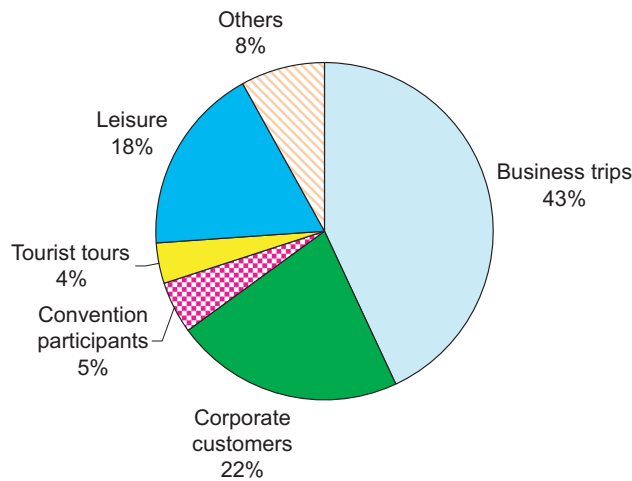
Sources: China Tourism Year Book 2006

LETTER FROM THE BOARD

Increasing business trips

The vigorous growth of the economy of the PRC in recent decade, especially the private sector, has brought substantial increase in business travels and commercial conferences. Businessmen and personnel of private enterprises are traveling frequently throughout the Mainland for the opportunity of business expansion. Budget hotels, with their economical pricing and efficient lodging services, well meet the needs and the budget of these corporate customers. According to the China Economy Hotel Survey 2007, during the year 2006, travelers on business trips and corporate customers are the two largest categories of guests of budget hotels as shown in Chart 5 below.

Chart 5 – Customer mix of budget hotel in 2006

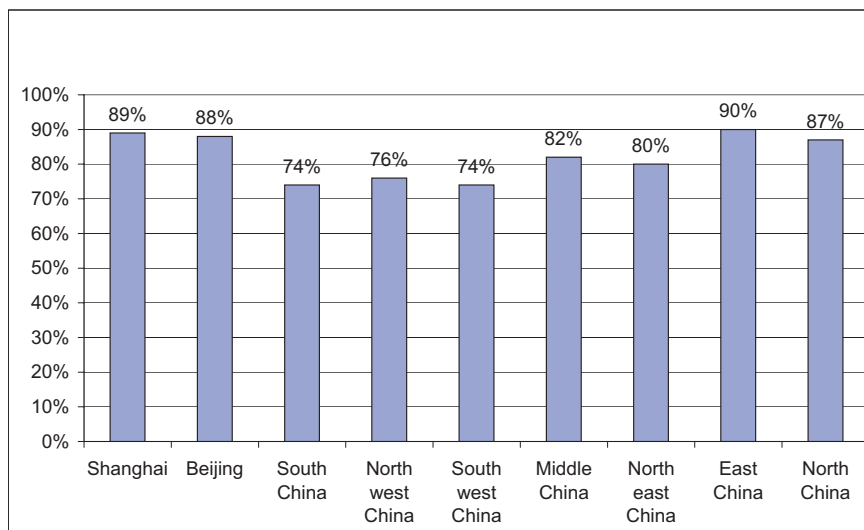


Source: China Economy Hotel Survey 2007

Proven popularity of budget hotels

As illustrated in Chart 6 below, budget hotels are well accepted by the travelers, with occupancy rate in different regions of the PRC ranging from 70% to 90% during the year 2006.

Chart 6 – Average room occupancy rate of budget hotels in 2006



Source: China Economy Hotel Survey 2007

LETTER FROM THE BOARD

The popularity of budget hotels is also proven by the fast expansion of certain local and foreign enterprises which have already established their brand names in the industry. According to the China Economy Hotel Survey 2007 and as illustrated in Table 7 below, the three largest brands of budget hotel chain are Jinjiang Star (“锦江之星”), Homes Inn (“如家快捷酒店”) and Motel 168 (“莫泰168”), with 118, 134 and 52 hotels respectively as at the year end of 2006. They have been expanding rapidly in terms of number of hotels and rooms.

Table 7 – Budget hotel chain in China

Top-5 brand names		No. of hotels opened as at 31 December 2006	% increase as compared to year 2005	No. of rooms operated as at 31 December 2006	% increase as compared to year 2005
1	Jinjiang Inn (锦江之星)	118	71%	16,885	71%
2	Home Inns (如家)	134	87%	16,162	98%
3	Motel 168 (莫泰168)	52	173%	11,272	131%
4	Hotel Home (中洲快捷)	28	12%	4,430	11%
5	Super 8 (速8)	42	133%	4,249	135%

The rapid expansion of the top-5 brand names has not only proven the enormous market demand for the service of budget hotels, but has also demonstrated that strong branding of hotel networks is welcomed by the market. Customers tend to be attracted by the consistent quality services, environment, logistic and room reservation system provided by the hotel networks under well-cultivated brand names.

Although the abovementioned brands have already entered into the budget hotel market in the PRC ahead of the Group, the Board believes that there is enormous market demand for the services of budget hotels in the PRC and there is room for the market to expand.

Conclusion

Having considered the above, in particular:

- (i) domestic tourism is expected to continue to experience a strong growth along with the economy of the PRC;
- (ii) the local tourism bureau are carrying out encouraging policies and promotional activities to attract both domestic and international tourists;
- (iii) business activities of private enterprises are expected to grow along with the PRC economy. Budget hotels which provide standardized quality and comfortable accommodations at an economical price would well suit the demand of the businessmen or employees of the private enterprises traveling throughout the country; and
- (iv) the popularity of budget hotels in the PRC as demonstrated by the rapid expansion of certain brand names of budget hotel,

the Board is optimistic about the budget hotel business in the PRC. The acquisition of the Properties would be an essential part of the Group's strategy to acquire a scalable network of hotel properties and to build up its own brand of budget hotels.

LETTER FROM THE BOARD

BUSINESS PLAN OF THE GROUP

The Company intends to revamp the Properties and upgrade the facilities available at the Properties with a view to establish a brand name for quality budget hotel chain in the PRC. Facilities available in the budget hotels shall include broad-band internet access, business centre, coffee shop, and air-conditioning. Assuming the cost of upgrading facilities and renovation work is around RMB50,000 for each guest room, the aggregate renovation cost for the hotel properties acquired under the First Acquisition and the Second Acquisition is estimated to be approximately RMB56.0 million.

Pursuant to the agreements for the First Acquisition and the Second Acquisition, all necessary registration procedures in relation to the transfer of the title and the delivery of the hotel properties shall be completed within six months from the date of the agreements. The Group estimated that it takes around 9 months from the delivery of the Properties to complete the renovation work and the application procedures for all the necessary government approvals. The Directors consider that the Enlarged Group has sufficient working capital to carry out the aforesaid business plan in relation to the First Acquisition and Second Acquisition including all the necessary renovation work. Such business plan will be financed from the internal resources of the Enlarged Group, bank borrowings and/or other equity fund raising exercises. As at the Latest Practicable Date, the Company is yet to determine the apportionment of the above financing means. The Company will comply with the relevant provisions of the Listing Rules and further announcement(s) will be made by the Company in this regard as and when appropriate. It is anticipated the 11 hotel properties acquired pursuant to the First Acquisition would start generating income in the fourth quarter of 2008, while the 5 hotel properties acquired pursuant to the Second Acquisition would start generating income in the first quarter of 2009. It is expected that there would be around 1,000 to 1,500 guest rooms in aggregate after renovation for the 16 hotel properties. Daily room rates of the budget hotels would range from RMB100 to RMB300, depending on the locations and facilities of the hotels and the then economic environment.

The Company intends to engage a management company to manage the hotel operations of the Properties. In this regard, the Company is in the process of identifying appropriate hotel managers and interviewing potential candidates which include well established local and international companies in the hotel management, corporate travelling or catering industry. The Company has not yet entered into any definitive management agreement or determined the terms of the engagement. The Group intends to finalise the appointment of the hotel manager by the first quarter of 2008.

The Group believes that strong branding of budget hotels would be welcomed by the market as it would enhance customers' perception on the hotels for consistent service quality and facilities, while the Group would on the other hand enjoy economy of scale in operation. China Post Group has further made available for sale about 60 hotel properties through tenders on the website of China Beijing Equity Exchange. The Group intends to identify appropriate acquisition targets in order to further expand the budget hotel chain under the brand name of "U" Inns. The Company will comply with relevant provisions of the Listing Rules if further targets are acquired and further announcement(s) will be made by the Company as and when appropriate.

FINANCIAL EFFECTS OF THE SECOND ACQUISITION

According to the unaudited pro forma statement of assets and liabilities of the Enlarged Group as contained in Appendix II of this circular, assuming completion of the Second Acquisition had taken place on 31 March 2007, total assets of the Enlarged Group will increase by HK\$142.4 million, representing the aggregate consideration of the Properties of approximately HK\$123.9 million plus estimated incidental costs including deed tax and land premium of approximately HK\$18.5 million. Liabilities of the Enlarged Group will increase by HK\$142.4 million, representing the drawn down of additional borrowings of HK\$142.4 million to fund the Second Acquisition.

LETTER FROM THE BOARD

The hotel operations of the Properties will cease before completion of the Agreement and the Group intends to revamp the Properties and upgrade the facilities available at the Properties, with a view to establishing a brand name of a quality budget hotel chain in the PRC. Accordingly, the Properties are not expected to generate revenue and profits to the group immediately upon completion of the Second Acquisition until the hotel operations of the Properties recommence after the renovation work.

HISTORICAL FINANCIAL INFORMATION OF THE PROPERTIES

According to Rule 14.67(4)(b)(i) of the Listing Rules, the Company is required to include in this circular a profit and loss statement for the three preceding years on the identifiable net income stream in relation to the Properties, which must be reviewed by the Company's auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. Accordingly, the Company requested the Vendors to provide the relevant historical accounting records of the business of the Properties. Despite repeated requests by the Company, the Vendors advised the Company that such accounting records cannot be made available to the Company as the Vendors did not maintain separate records for the Properties. The Company has therefore applied to the Stock Exchange for a waiver from the strict compliance with the disclosure requirements under Rule 14.67(4)(b)(i) of the Listing Rules.

Actions undertaken by the Company

Instead of reviewing the accounting records of the Vendors, as alternatives to gather relevant financial information about the Properties, the Company attempted to ascertain the annual rental income generated by the Properties and requested the Vendors to provide copies of the rental agreements for the Properties. The Vendors replied to the Company that the majority of the revenue generated from the Properties are room rental income from hotel guests which are generally not subject to any formal rental agreements. Only a few rental agreements existed in respect of several small scale retail shops located on the ground floor of some of the Properties which generated minimal rental income and represented only an insignificant part of the total income of the Properties.

The Company further requested the Vendors to advise the occupancy rate of the Properties and to provide a price list for the room rates of the hotels. The Vendors represented to the Company that they did not maintain any record for the occupancy rate and it is impracticable to estimate an average occupancy rate for the Properties. In addition, depending on circumstances and the type of visitors staying at the Properties, different levels of discount were offered to the visitors and the room rate in the past years varied significantly. Therefore, the occupancy rate of the hotels and the price list of the rooms, even if they were provided to the Company, would not be an accurate information for the purpose of ascertaining the historical financial information of the Properties.

The Company used its best endeavours and exhausted all means to gather all relevant financial information on the Properties for Shareholders' consideration. Given that (i) the Vendors are unable to provide any accounting records for the Properties; (ii) the rental income for the retail shops represented only an immaterial portion of the total income of the Properties; and (iii) there is no reliable records on the occupancy rate and room rate of the Properties for the Company to estimate the hotel rental income, the Company does not propose any alternative disclosure of the financial information of the Properties in this circular. The Directors consider that in the absence of accounting records from the Vendors, they would not be in a position to ascertain the accuracy and completeness of any financial information of the Properties and to confirm that any such disclosures are not misleading.

LETTER FROM THE BOARD

Due diligence work on the acquisition

Despite the lack of historical profit and loss figures, the Group has performed extensive due diligence work on the Properties, which includes, among other things, (i) engaging an independent professional property valuer, RHL, to prepare a valuation report on the Properties (as contained in Appendix III to the circular); (ii) engaging a PRC law firm to perform legal due diligence and to render a legal opinion concerning the legal titles of the Properties and the legality and enforceability of the Agreement (an extract of the content of which is included in the paragraph headed “Assets to be acquired” and the property valuation report); (iii) performing site visits and physical inspections of the Properties and assessing the local economy and tourism of the areas in which the Properties are located; and (iv) researching into the budget hotel market and the economic environment of the PRC (the findings of which are illustrated in the section headed “Budget hotel business in the PRC”). Based on the aforesaid work, the Board is of the view that it has obtained relevant information concerning the acquisition of the Properties, and is able to form a view that the Second Acquisition is in the interests of the Company and Shareholders as a whole.

Future operations of the Properties

As stated in the paragraph headed “Reasons for the Second Acquisition”, it is the intention of the Group to revamp the Properties and to run the hotel business under a new brand name of “U-Inn”. The Directors expect that the hotel operations to be led by the Group will be very different from the previous operations run by China Post Group. In addition, all the Properties will be delivered to the Group on vacant possession basis and none of the existing business of the Properties, if any, will be carried forward and continued by the Group. On this basis, the historical profit and loss information of the Properties, even if provided, are of little relevance to the Shareholders in their assessing the future prospects of the Properties and the possible effects of the Second Acquisition on the future earnings and profits of the Group. The Directors further consider that the information contained in this circular provided sufficient and relevant information in connection with the acquisition of the Properties for Shareholders’ consideration.

GENERAL

The Second Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Second Acquisition, when aggregated with the First Acquisition pursuant to Rule 14.22 of the Listing Rules, constitutes a major transaction for the Company and is therefore subject to the approval of the Shareholders.

As no Shareholder has a material interest in the First Acquisition and the Second Acquisition which is different from other Shareholders, no Shareholder is required to abstain from voting on the Second Acquisition. As at the Latest Practicable Date, 1,529,600,200 Shares have been issued and paid up. VXCPL, which is beneficially interested in 769,308,000 Shares (representing approximately 50.29% of the issued share capital of the Company as at the date of the Agreement), has given written consent to the Second Acquisition. The written consent from VXCPL is accepted in lieu of holding a general meeting to approve the Second Acquisition pursuant to Rule 14.44 of the Listing Rules.

ADDITIONAL INFORMATION

Your attention is drawn to the financial information of the Group, the valuation report on the Properties and further information relating to the Group contained in the appendices to this circular.

Yours faithfully,
By order of the Board
Percy ARCHAMBAUD-CHAO
Director and Chief Executive Officer

1. SUMMARY OF FINANCIAL INFORMATION

During the fifteen months ended 31 March 2007, the Company has changed its financial year end date from 31 December to 31 March. A summary of the consolidated financial information of the Group for the financial years ended 31 December 2004 and 31 December 2005 and the fifteen months ended 31 March 2007 is set out below:

	1/1/2004 to 31/12/2004 <i>HK\$'000</i> (Restated)	1/1/2005 to 31/12/2005 <i>HK\$'000</i>	1/1/2006 to 31/3/2007 (15 months) <i>HK\$'000</i>
Consolidated profit and loss accounts			
Revenue	<u>3,739</u>	<u>7,536</u>	<u>33,939</u>
(Loss)/Profit attributable to equity holders of the Company	<u>(6,149)</u>	<u>4,067</u>	<u>63,544</u>
	31/12/2004 <i>HK\$'000</i>	31/12/2005 <i>HK\$'000</i>	31/3/2007 <i>HK\$'000</i>
Consolidated balance sheets summary			
Non-current assets	3,053	166,895	950,990
Current assets	187,240	133,610	43,981
Current liabilities	(1,068)	(12,974)	(542,777)
Non-current liabilities	<u>–</u>	<u>(94,019)</u>	<u>(152,793)</u>
Net assets	<u>189,225</u>	<u>193,512</u>	<u>299,401</u>
Finance by:			
Share capital	14,400	14,400	15,280
Reserves	<u>174,825</u>	<u>179,112</u>	<u>284,121</u>
Shareholders' funds	<u>189,225</u>	<u>193,512</u>	<u>299,401</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group extracted from pages 62 to 138 of the annual report of the Company for the fifteen months ended 31 March 2007, for which an unqualified audit opinion was issued by the auditors of the Company.

“Consolidated Profit and Loss Account

For the fifteen months ended 31 March 2007

	Note	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Revenue	5	33,939	7,536
Other operating income	5	2,929	4,299
Excess of fair value of net assets acquired over costs of acquisition	32	91,536	–
Fair value gain on investment properties	15	8,719	33,574
Staff costs	6	(24,788)	(12,043)
Other operating expenses		(44,001)	(21,693)
Profit on disposal of a subsidiary	7	715	–
Operating profit	8	69,049	11,673
Finance costs	9	(16,236)	(1,348)
Share of losses of associates	18	(476)	(465)
Profit before taxation		52,337	9,860
Taxation credit/(charge)	10	11,207	(5,793)
Profit attributable to shareholders	11	<u>63,544</u>	<u>4,067</u>
Basic and diluted earnings per ordinary share attributable to shareholders of the Company for the period/year	12	<u>HK\$0.87</u>	<u>HK\$0.06</u>

Consolidated Balance Sheet*As at 31 March 2007*

	<i>Note</i>	31/3/2007 <i>HK\$'000</i>	31/12/2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14(a)	5,550	5,105
Investment properties	15	891,561	143,000
Goodwill	16	18,314	18,314
Interests in associates	18	35,009	–
Available-for-sale financial assets	19	556	476
		<u>950,990</u>	<u>166,895</u>
Current assets			
Financial assets at fair value through profit or loss	20	16,505	591
Trade and other receivables	21	6,506	10,048
Bank balances and cash	22	20,970	122,971
		<u>43,981</u>	<u>133,610</u>
Current liabilities			
Trade and other payables	23	409,881	10,335
Long-term bank loan	24	3,000	2,174
Obligations under finance leases	25	345	465
Amount due to holding company	26	129,551	–
		<u>542,777</u>	<u>12,974</u>
Net current (liabilities)/assets		<u>(498,796)</u>	<u>120,636</u>
Total assets less current liabilities		<u>452,194</u>	<u>287,531</u>
Non-current liabilities			
Long-term bank loan	24	97,000	74,826
Obligations under finance leases	25	86	667
Deferred tax liabilities	27	55,707	18,526
		<u>152,793</u>	<u>94,019</u>
Net assets		<u><u>299,401</u></u>	<u><u>193,512</u></u>
Financed by:			
Share capital	28	15,280	14,400
Reserves	29(a)	284,121	179,112
Shareholders' funds		<u><u>299,401</u></u>	<u><u>193,512</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Balance Sheet***As at 31 March 2007*

	<i>Note</i>	31/3/2007 <i>HK\$'000</i>	31/12/2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14(b)	3,624	3,650
Interests in subsidiaries	17	10,000	9,000
Available-for-sale financial assets	19	556	476
		<u>14,180</u>	<u>13,126</u>
Current assets			
Financial assets at fair value through profit or loss	20	16,505	591
Trade and other receivables	21	1,465	3,989
Amounts due from subsidiaries	17	286,281	56,597
Bank balances and cash	22	449	112,436
		<u>304,700</u>	<u>173,613</u>
Current liabilities			
Trade and other payables	23	2,058	1,799
Obligations under finance leases	25	345	465
Amount due to holding company	26	129,551	—
		<u>131,954</u>	<u>2,264</u>
Net current assets		<u>172,746</u>	<u>171,349</u>
Total assets less current liabilities		<u>186,926</u>	<u>184,475</u>
Non-current liabilities			
Obligations under finance leases	25	86	667
Net assets		<u><u>186,840</u></u>	<u><u>183,808</u></u>
Financed by:			
Share capital	28	15,280	14,400
Reserves	29(b)	171,560	169,408
Shareholders' funds		<u><u>186,840</u></u>	<u><u>183,808</u></u>

Consolidated Statement of Changes in Equity*For the fifteen months ended 31 March 2007*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Available- for-sale financial assets reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	14,400	116,612	–	–	58,213	189,225
Changes in fair value of available-for-sale financial assets	–	–	220	–	–	220
Net profit for the year attributable to shareholders	–	–	–	–	4,067	4,067
At 31 December 2005	14,400	116,612	220	–	62,280	193,512
Changes in fair value of available-for-sale financial assets	–	–	80	–	–	80
Translation exchange difference	–	–	–	7,588	–	7,588
Net income recognized directly in equity	–	–	80	7,588	–	7,668
Issue of shares (<i>Note 28</i>)	880	33,797	–	–	–	34,677
Net profit for the period attributable to shareholders	–	–	–	–	63,544	63,544
At 31 March 2007	<u>15,280</u>	<u>150,409</u>	<u>300</u>	<u>7,588</u>	<u>125,824</u>	<u>299,401</u>

Consolidated Cash Flow Statement*For the fifteen months ended 31 March 2007*

	Note	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Operating activities			
Profit before taxation		52,337	9,860
Adjustments for:			
Share of losses of associates		476	465
Excess of fair value of net assets acquired over costs of acquisition		(91,536)	–
Fair value gain on investment properties		(8,719)	(33,574)
Interest income		(2,929)	(4,283)
Interest expense		16,236	1,348
Dividend income from listed investments		–	(16)
Depreciation of property, plant and equipment		3,426	1,082
Profit on disposal of a subsidiary	7	(715)	–
Loss on disposal of property, plant and equipment		12	89
Operating loss before working capital changes		(31,412)	(25,029)
Increase in trade and other receivables		(34,523)	(8,473)
Increase in trade and other payables		20,271	8,681
Increase in trading securities		(15,914)	(591)
Net cash outflow from operations		(61,578)	(25,412)
Hong Kong profits tax refunded, net		–	275
Net cash used in operating activities		(61,578)	(25,137)
Investing activities			
Purchase of property, plant and equipment		(4,343)	(4,426)
Purchase of investment properties		(279,053)	(115,007)
Disposal of a subsidiary, net of cash disposed	7	(63,228)	–
Interest received		2,929	4,283
Proceeds for disposal of property, plant and equipment		–	56
Dividends received from an associate		22	1,125
Advances to an associate		(900)	–
Repayment from an associate		3,089	–
Dividends received from investments in securities		–	16
Net cash used in investing activities		(341,484)	(113,953)

		1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
	Note		
Financing activities			
Net proceeds from share placement		34,677	–
Shareholder's loan		171,070	–
Deposit received from potential investors		83,086	–
Repayment of secured bank loan		(77,000)	–
Secured bank loan drawn down		100,000	77,000
Capital element of finance lease rentals paid		(701)	(263)
Interest paid		(11,124)	(1,348)
		<u>300,008</u>	<u>75,389</u>
Net cash from financing activities			
		<u>300,008</u>	<u>75,389</u>
Decrease in cash and cash equivalents		(103,054)	(63,701)
Cash and cash equivalents at 1 January		122,971	186,672
Exchange gain on cash and cash equivalents		1,053	–
		<u>20,970</u>	<u>122,971</u>
Cash and cash equivalents at 31 March/31 December			
		<u>20,970</u>	<u>122,971</u>
Analysis of balances of cash and cash equivalents			
Bank balances and cash	22	<u>20,970</u>	<u>122,971</u>

Notes to the Financial Statements

1. GENERAL INFORMATION

The principal activities of VXL Capital Limited (the "Company") are investment holding, securities trading, and provision of management services to subsidiaries, whilst those of its subsidiaries are set out in note 17 to the financial statements. The Company has its listing on The Stock Exchange of Hong Kong Limited.

The directors consider the immediate and ultimate holding company to be VXL Capital Partners Corporation Limited ("VXLCPL"), incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, except as modified by the revaluation of the investment properties, the available-for-sale financial assets and the financial assets at fair value through profit or loss.

At 31 March 2007, the Group had net current liabilities of HK\$498,796,000. It mainly consists of the outstanding payment for acquisition of Changshou Commercial Plaza ("Changshou Properties") and amount due to holding company. Subsequent to the period end, a bank loan facility has been obtained to finance the acquisition of Changshou Properties, details of which are set out in Note 34(a). The holding company of the Company, 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.

The preparation of financial statements 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 Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The HKICPA has issued a number of new and amendments to HKFRSs, which are effective for accounting periods beginning on or after 1 January 2006. The Group has adopted the following amendments to HKFRSs and interpretation issued up to 31 March 2007 which are pertinent to its operations and relevant to these financial statements.

HKAS 39(Amendment)	The Fair Value Option
HKAS 21(Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

There was no material impact on the consolidated financial statements arising from the adoption of the above mentioned new and revised accounting standards.

The Group has not applied the following new and amendments to HKFRSs, which have been issued but effective for periods beginning on or after 1 November 2006 and are pertinent to the Group's operations, in the financial statements:

HKAS 1(Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

HKAS 1 (Amendment), effective for periods beginning on or after 1 January 2007, will affect the disclosures of qualitative information concerning the Group's objective, policies and processes for managing capital, quantitative data about what the Group regards as capital; and compliance with any capital requirements and consequences of any non-compliance.

HKFRS 7, effective for periods beginning on or after 1 January 2007, introduces new disclosures relating to financial instruments.

HKFRS 8, effective for periods beginning on or after 1 January 2008, supersedes HKAS 14 "Segment Reporting" and requires the reporting of financial and descriptive information about the reportable segments on the basis of internal reports that are regularly reviewed by its management.

HK(IFRIC)-Int 10, effective for periods beginning on or after 1 November 2006, prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.

The adoption of these new and revised accounting standards is not likely to have a significant impact on the Group's results of operations and financial position except for additional disclosures to be made in the financial statements of the Group.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March 2007.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date such control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference (which would have been known as negative goodwill under the previous accounting policy) is recognized directly in the profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including any attributable amount of goodwill and any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Associates*

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognized in the profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services. A geographical segment is engaged in providing products or services within a particular economic environment. Both types of segments are subject to risks and returns that are different from those of other business/geographical segments.

In accordance with the Group's internal financial reporting system, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the jurisdiction in which the customers are located and total assets and capital expenditure are where the assets are located.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 recognized in the profit and loss account.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the 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 sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account 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 recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the profit and loss account as part of the gain or loss on sale.

2.5 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account 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:

– Furniture and fixtures	3 – 5 years
– Office equipment	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 Group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An impairment loss is recognized 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 (Note 2.8). Gains and losses on disposals are determined by comparing proceeds with carrying amount.

2.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, which is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs, except when it is acquired through a business combination, in which case it is measured initially at fair value. After initial recognition, investment property is carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recognized in the profit and loss account.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate, or business attributable to the Group at the effective date of acquisition.

Goodwill on acquisitions of subsidiaries and businesses is included in intangible assets while goodwill on acquisitions of associates is included in "Interests in associates". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity or business include the carrying amount of goodwill relating to the entity or business sold. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates or business (negative goodwill), is recognized immediately in the profit and loss account.

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Investments

The Group has classified its investments in the following categories: financial assets at fair value through profit or loss (including trading and other investments), loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the specific circumstances of the issuer.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account) is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the 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 trade 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 amount of the provision is recognized in the profit and loss account.

2.11 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

2.12 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

2.13 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 recognized in profit or loss account except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized 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 and associates, 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.

2.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made.

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 recognized 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 recognized as interest expense.

2.15 Share capital

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

2.16 Employee benefits*(a) Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

(b) Bonus plans

The expected cost of bonus payments are recognized as a liability when the 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

The Group has a defined contribution retirement plan and the assets are held in independent mutual funds. The pension plan is generally funded by payments from employees and by the relevant companies within the Group based on a percentage of the employee's basic salary.

The Group's contributions to the defined contribution retirement plan are expensed as incurred.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, known as Share Option Scheme (the "Scheme"). The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Revenue recognition

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

- i) Rental income receivable under operating leases is recognized on a straight-line basis over the lease term.
- ii) Corporate advisory fees are recognized as revenue when the agreed services have been provided.
- iii) Interest income is recognized on a time proportion basis using the effective interest method.
- iv) Realized gain/loss on trading of securities is recognized on a trade date basis.
- v) Unrealized gain/loss on trading securities is recognized when trading securities are restated to fair value at the reporting date.
- vi) Dividend income is recognized when the right to receive payment is established.

2.18 Leases**(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 profit and loss account on a straight-line basis over the period of the lease.

(b) Finance leases

Leases of assets where the 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 interest element of the finance cost is recognized in the profit and loss account over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

2.19 Insurance contracts

The Company regards its financial guarantee contracts in respect of mortgage facilities provided to a subsidiary as insurance contract. The Company assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flow. Changes in carrying amount of these insurance liabilities are recognized in the profit and loss account.

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 Group.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

A contingent asset is not recognized but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

3. FINANCIAL RISK MANAGEMENT**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest-rate risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

*(a) Market risk**(i) Foreign exchange risk*

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong Dollars ("HK\$"), United States Dollars ("USD") and Renminbi ("RMB"). The Group is exposed to foreign exchange risk arising from its investments which are located in the PRC. Considering that the exchange rate between HK\$ and USD is pegged, and that RMB is appreciating, the Group believes its downside foreign exchange risk is minimal.

(ii) Price risk

The Group is exposed to equity securities price risk because the Group's result is affected by the fluctuation in the market price of investments held by the Group which are classified as financial assets at fair value through profit or loss.

(b) Credit risk

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

In respect of trade and other receivables, these receivables are due within 3 days from the date of billing. Reminders are sent to the debtors with balances that are more than 14 days overdue.

In respect of investments and bank deposits, the 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 Group invests its assets.

(c) Liquidity risk

The Group maintains liquidity by obtaining funding from the holding company and bank facilities.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from treasury deposits, other investment activities and long-term borrowings. The Group monitors and limits its interest rate risk exposure through management of maturity profile, currency mix and choice of fixed and floating interest rates.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market prices used for quoted investments held by the Group are the closing bid prices.

The fair value of debtors and prepayments, cash and cash equivalents, creditors and accruals and current borrowings are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

The Group determines whether the newly acquired property qualifies as an investment property. In making its judgment, the 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. Taking into consideration of all the factors, the Group considers the newly acquired properties to be investment properties.

(b) Estimate of fair value of investment property

The best evidence of fair value is current prices in an active market for similar property, lease and other contracts. The Group engages external independent professional valuers to carry out the valuation annually on an open market for existing use basis, and adopts such valuation as the fair value of investment property. In making the judgment, consideration is given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalization rates. These estimates are regularly compared to the actual market data and actual transactions available.

(c) Income taxes

It is the 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 management's expectation of future taxable profit that will be available against which tax losses can be utilized.

(d) Estimated impairment of assets

The Group tests at least annually whether goodwill or 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 of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

5. REVENUE, OTHER OPERATING INCOME AND SEGMENT INFORMATION

The Group is principally engaged in property investment, securities trading and investment, and the provision of financial services. Revenue and other operating income recognized during the period/year are as follows:

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Revenue/Turnover		
Corporate advisory fees	21,954	4,923
Rental and other fee income	9,990	2,641
Fair value gain/(loss) from listed investments	1,995	(28)
	<u>33,939</u>	<u>7,536</u>
Other operating income		
Interest income from		
– bank deposits	2,311	4,268
– finance leases	536	–
– trading investments	82	15
Dividend income from listed investments	–	16
	<u>2,929</u>	<u>4,299</u>

The Group has reclassified its interest income from revenue/turnover to other operating income because cash investment is not considered by the directors as the Group's principal activities. Accordingly, the comparative figures have been reclassified to conform to the current period's presentation.

Primary reporting format – business segments

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 property investment segment is engaged in operation of the investment properties;
- b) 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 investment and trading securities;
- c) the financial services segment is engaged in the provision of corporate finance and advisory services and operational and financial leasing of assets; and
- d) the unallocated segment comprises operations other than those specified in (a) to (c) above and includes that of the corporate office.

Capital expenditures comprise additions to property, plant and equipment (Note 14) and investment properties (Note 15). Segment assets consist primarily of property, plant and equipment, investment properties, goodwill, investments and receivables. Segment liabilities comprise 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 deferred taxation and corporate borrowings. Interest income has been reclassified from segment revenue to unallocated operating income in accordance with the reclassification of interest income from revenue/turnover to other operating income. Accordingly, the comparative figures have been reclassified to conform to the current period's presentation.

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FINANCIAL INFORMATION OF THE GROUP

The segment results, major non-cash items and capital expenditures based on business segments for the fifteen months ended 31 March 2007 and the year ended 31 December 2005 are as follows:

	Property investment <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
For the fifteen months ended 31 March 2007						
Segment revenue:						
Sales to external customers	9,990	1,995	21,954	–	–	33,939
Inter-segment revenue	–	–	824	(824)	–	–
Total segment revenue	<u>9,990</u>	<u>1,995</u>	<u>22,778</u>	<u>(824)</u>	<u>–</u>	<u>33,939</u>
Segment results	<u>99,422</u>	<u>1,940</u>	<u>9,121</u>			110,483
Unallocated operating income and expenses, net						(41,434)
Finance costs						(16,236)
Share of losses of associates						(476)
Profit before taxation						52,337
Taxation credit						11,207
Profit attributable to shareholders						<u>63,544</u>
Other segment information						
Excess of fair value of net assets acquired over costs of acquisition (<i>Note 32</i>)	91,536	–	–	–	–	91,536
Fair value gain on investment properties (<i>Note 15</i>)	8,719	–	–	–	–	8,719
Depreciation	246	–	320	–	2,860	3,426
Capital expenditures	<u>729,028</u>	<u>–</u>	<u>718</u>	<u>–</u>	<u>3,436</u>	<u>733,182</u>

	Property investment <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
For the year ended 31 December 2005					
Segment revenue:					
Sales to external customers	<u>2,641</u>	<u>(28)</u>	<u>4,923</u>	<u>–</u>	<u>7,536</u>
Segment results	<u>33,973</u>	<u>(58)</u>	<u>(3,641)</u>		30,274
Unallocated operating income and expenses, net					(18,601)
Finance costs					(1,348)
Share of losses of associates					<u>(465)</u>
Profit before taxation					9,860
Taxation charge					<u>(5,793)</u>
Profit attributable to shareholders					<u>4,067</u>
Other segment information					
Fair value gain on investment properties (<i>Note 15</i>)	33,574	–	–	–	33,574
Depreciation	64	–	110	908	1,082
Capital expenditures	<u>110,000</u>	<u>–</u>	<u>195</u>	<u>5,052</u>	<u>115,247</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The segment assets and liabilities based on business segments as at 31 March 2007 and 31 December 2005 are as follows:

	Property investment <i>HK\$'000</i>	Securities trading and investment <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
At 31 March 2007					
Segment assets	912,941	16,557	1,196	8,298	938,992
Interests in associates					35,009
Bank balances and cash					20,970
Total assets					994,971
Segment liabilities	405,306	–	452	4,554	410,312
Bank loans					100,000
Amount due to holding company					129,551
Deferred tax liabilities					55,707
Total liabilities					695,570
At 31 December 2005					
Segment assets	164,587	2,385	2,721	7,841	177,534
Bank balances and cash					122,971
Total assets					300,505
Segment liabilities	2,090	–	2,156	7,221	11,467
Bank loans					77,000
Deferred tax liabilities					18,526
Total liabilities					106,993

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 fifteen months ended 31 March 2007 and the year ended 31 December 2005 are as follows:

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Revenue		
Hong Kong	<u>33,939</u>	<u>7,536</u>
Capital expenditures		
Hong Kong	2,963	115,247
PRC	<u>730,219</u>	<u>–</u>
	<u>733,182</u>	<u>115,247</u>

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 31 March 2007 and 31 December 2005 are analyzed as follows:

	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Total assets		
Hong Kong	201,667	293,176
PRC	<u>793,304</u>	<u>7,329</u>
	<u>994,971</u>	<u>300,505</u>

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

6. STAFF COSTS

The staff costs disclosed below are for all employees and include all directors' emoluments (*Note 13*).

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Directors' fees	875	654
Salaries and bonus	21,973	10,189
Unutilised annual leave	40	327
Pension costs – defined contribution plan	570	191
Others	<u>1,330</u>	<u>682</u>
	<u>24,788</u>	<u>12,043</u>

7. DISPOSAL OF A SUBSIDIARY

In February 2006, the Group set up a PRC subsidiary, VXL International Leasing Company Limited, via VXL Investments Holdings Limited ("VXLIHL") and Million Sky Investments Limited ("MSIL"), both of which are wholly-owned subsidiaries of the Company.

On 9 October 2006, VXLIHL entered into an agreement with VXL CPL to dispose of 55% of VXLIHL's equity interest in MSIL together with the shareholder's loan owing by MSIL to VXLIHL for a total consideration of HK\$42,070,000. The disposal was approved by the independent shareholders at an extraordinary general meeting held on 14 November 2006. The profit on disposal amounted to HK\$715,000.

The effect of the disposal is summarized as follows:

	<i>HK\$'000</i>
Total assets	133,440
Total liabilities	(134,930)
Net liabilities	<u>(1,490)</u>
55% interest disposed	(820)
Exchange reserve realized	(657)
Shareholder's loan assigned	42,832
Profit on disposal	<u>715</u>
	<u>42,070</u>
Satisfied by:	
Promissory note [#]	<u>42,070</u>
Net cash outflow arising on disposal:	
Bank balances and cash disposed	<u>(63,228)</u>

[#] The promissory note was utilized to set off against the loan from the holding company.

8. OPERATING PROFIT

	1/1/2006 to 31/3/2007 <i>HK\$'000</i>	1/1/2005 to 31/12/2005 <i>HK\$'000</i>
Operating profit is arrived at after charging/(crediting):		
Legal and professional fee	3,148	2,208
Consultancy fee	7,748	6,844
Rental income from investment properties	(9,986)	(2,641)
Direct outgoings for investment properties	5,651	2,082
Depreciation	3,426	1,082
Loss on disposal of property, plant and equipment	12	89
Auditors' remuneration		
– audit	737	655
– non-audit	969	473
Net exchange loss	687	55
Operating leases – land and buildings	<u>8,541</u>	<u>2,484</u>

9. FINANCE COSTS

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Interest on bank loan wholly repayable within five years	2,966	–
Interest on bank loan wholly repayable more than five years	5,080	1,307
Interest on finance leases	58	25
Other interest expenses on amounts wholly repayable within five years	8,132	16
	<u>16,236</u>	<u>1,348</u>

10. TAXATION

Hong Kong profits tax is assessed at the statutory rate of 17.5% (year ended 31 December 2005: 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 countries in which the Group operates. There is no profits tax provided as the Group did not have any assessable profit for the period (year ended 31 December 2005: HK\$Nil).

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Deferred tax (credit)/charge (Note 27)	<u>(11,207)</u>	<u>5,793</u>

The tax on the Group's profit 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:

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Profit before taxation	52,337	9,860
Share of losses of associates	476	465
Profit before taxation – Company and subsidiaries	<u>52,813</u>	<u>10,325</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	23,044	1,807
Tax effect of non-deductible expenses	–	185
Tax effect of non-taxable revenue	(30,502)	(750)
Tax effect on temporary differences not recognised	309	(285)
Deferred tax assets on tax losses not recognised	9,254	4,836
Change in PRC income tax rate (Note)	<u>(13,312)</u>	<u>–</u>
Tax (credit)/charge	<u>(11,207)</u>	<u>5,793</u>

Note:

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate for domestic enterprises and foreign invested enterprises from 33% to 25% with effect from 1 January 2008. As a result of the new CIT Law, the carrying amount of deferred tax liabilities has been reduced by HK\$13,312,000 for the fifteen months ended 31 March 2007.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$31,725,000 for the fifteen months ended 31 March 2007 (year ended 31 December 2005: loss of HK\$8,406,000).

12. BASIC AND DILUTED EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY FOR THE PERIOD/YEAR

The calculation of basic and diluted earnings per ordinary share is based on the Group's profit attributable to shareholders of HK\$63,544,000 (year ended 31 December 2005: HK\$4,067,000) and the weighted average number of 73,315,165 (year ended 31 December 2005: 72,000,000) ordinary shares in issue during the period.

The basic and diluted earnings per ordinary share are the same as the Company has no dilutive potential ordinary shares in issue for the period/year ended 31 March 2007 and 31 December 2005.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the directors for the fifteen months period ended 31 March 2007 were as follows:

Name of director	Fees HK\$'000	Salaries HK\$'000	Discretionary bonuses HK\$'000	Other benefits** HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Datuk LIM Chee Wah (i)	—	—	—	—	—	—
Mr. Percy ARCHAMBAUD-CHAO	—	3,101	250	649	15	4,015
Mr. Stephen YUEN Ching Bor (ii)	—	2,148	700	—	14	2,862
Ms. Patsy SO Ying Chi	—	1,255	85	—	15	1,355
Mr. Michael YEE Kim Shing	250	—	—	—	—	250
Mr. Alan Howard SMITH, J.P.	250	—	—	—	—	250
Dr. Allen LEE Peng Fei, J.P.	375	—	—	—	—	375
	<u>875</u>	<u>6,504</u>	<u>1,035</u>	<u>649</u>	<u>44</u>	<u>9,107</u>

The emoluments paid or payable to each of the directors for the year ended 31 December 2005 were as follows:

Name of director	Fees HK\$'000	Salaries HK\$'000	Discretionary bonuses HK\$'000	Other benefits** HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Datuk LIM Chee Wah (i)	—	—	—	—	—	—
Mr. Percy ARCHAMBAUD-CHAO	—	2,137	—	363	10	2,510
Mr. Stephen YUEN Ching Bor (ii)	108	265	—	—	2	375
Ms. Patsy SO Ying Chi	—	788	75	—	10	873
Mr. Michael YEE Kim Shing	200	—	—	—	—	200
Mr. Alan Howard SMITH, J.P.	200	—	—	—	—	200
Dr. Allen LEE Peng Fei, J.P.	71	—	—	—	—	71
Mr. Alexander AU Siu Kee (iii)	29	—	—	—	—	29
Mr. Paul Steven SERFATY (iii)	46	—	—	—	—	46
Mr. Michael CHUM Hon Wang (iii)	—	—	—	—	—	—
	<u>654</u>	<u>3,190</u>	<u>75</u>	<u>363</u>	<u>22</u>	<u>4,304</u>

- (i) An executive director, Datuk LIM Chee Wah has waived his emolument for the period ended 31 March 2007 and year ended 31 December 2005.
- (ii) Resigned during the period ended 31 March 2007.
- (iii) Resigned during the year ended 31 December 2005. Mr. Michael CHUM Hon Wang, who resigned during the year has waived his emolument for the year ended 31 December 2005.

The five individuals whose emoluments were the highest in the Group for the period comprise of 3 directors and 2 employees (year ended 31 December 2005: 2 directors and 3 employees). The details of the emoluments payable to the 2 employees (year ended 31 December 2005: 3 employees) during the period are presented below.

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Salaries and other short-term employee benefits	2,687	1,992
Pension costs – defined contribution plan	30	27
Others	162	207
	<u>2,879</u>	<u>2,226</u>
	Number of individuals 1/1/2006 to 31/3/2007	1/1/2005 to 31/12/2005
Emoluments band		
HK\$500,001 – HK\$1,000,000	–	3
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>2</u>	<u>3</u>

14. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer and related equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 January 2006	3,082	110	739	2,302	6,233
Additions	3,356	212	631	144	4,343
Disposals	(507)	(36)	(193)	–	(736)
Exchange difference	14	3	11	16	44
At 31 March 2007	5,945	289	1,188	2,462	9,884
Accumulated depreciation					
At 1 January 2006	560	30	303	235	1,128
Charge for the period	2,416	75	353	582	3,426
Disposals	(174)	(6)	(45)	–	(225)
Exchange difference	3	–	1	1	5
At 31 March 2007	2,805	99	612	818	4,334
Net book value					
At 31 March 2007	<u>3,140</u>	<u>190</u>	<u>576</u>	<u>1,644</u>	<u>5,550</u>
Cost					
At 1 January 2005	528	87	470	–	1,085
Acquisition of business	574	–	–	–	574
Additions	2,455	97	393	2,302	5,247
Disposals	(475)	(74)	(124)	–	(673)
At 31 December 2005	3,082	110	739	2,302	6,233
Accumulated depreciation					
At 1 January 2005	260	87	227	–	574
Charge for the year	649	15	183	235	1,082
Disposals	(349)	(72)	(107)	–	(528)
At 31 December 2005	560	30	303	235	1,128
Net book value					
At 31 December 2005	<u>2,522</u>	<u>80</u>	<u>436</u>	<u>2,067</u>	<u>5,105</u>

(b) The Company

	Furniture and fixtures <i>HK\$'000</i>	Office equipment <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 January 2006	2,392	56	424	1,616	4,488
Additions	2,671	38	72	—	2,781
Disposals to a group company	—	—	—	(455)	(455)
At 31 March 2007	5,063	94	496	1,161	6,814
Accumulated depreciation					
At 1 January 2006	475	12	140	211	838
Charge for the period	1,909	32	196	298	2,435
Disposals to a group company	—	—	—	(83)	(83)
At 31 March 2007	2,384	44	336	426	3,190
Net book value					
At 31 March 2007	<u>2,679</u>	<u>50</u>	<u>160</u>	<u>735</u>	<u>3,624</u>
Cost					
At 1 January 2005	323	—	211	—	534
Additions	2,337	56	247	1,616	4,256
Disposals	(268)	—	(34)	—	(302)
At 31 December 2005	2,392	56	424	1,616	4,488
Accumulated depreciation					
At 1 January 2005	86	—	36	—	122
Charge for the year	530	12	118	211	871
Disposals	(141)	—	(14)	—	(155)
At 31 December 2005	475	12	140	211	838
Net book value					
At 31 December 2005	<u>1,917</u>	<u>44</u>	<u>284</u>	<u>1,405</u>	<u>3,650</u>

(c) The net book value of motor vehicles held under finance leases of the Group and the Company was HK\$735,000 (31 December 2005: HK\$1,405,000). None of the leases include contingent rentals.

15. INVESTMENT PROPERTIES

	Group	
	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
At 1 January	143,000	–
Acquisition of business	397,826	109,426
Additions	331,013	–
Fair value gain	8,719	33,574
Exchange difference	11,003	–
	<u>891,561</u>	<u>143,000</u>
At 31 March/31 December	<u>891,561</u>	<u>143,000</u>

The Group's interests in investment properties at their net book value are analysed as follows:

	31/3/2007 HK\$'000	31/12/2005 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	143,000	143,000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>748,561</u>	<u>–</u>
	<u>891,561</u>	<u>143,000</u>

The investment properties were revalued at 31 March 2007 on an open market value basis by an independent, professionally qualified valuer, Savills Valuation and Professional Services Limited.

The Group leases out certain investment properties under operating leases. The leases typically run for an initial period of one month to one year, with an option to renew the lease at the expiry date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease rentals under non-cancellable operating leases are receivable as follows:

	Group	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Not later than 1 year	1,766	1,823
Later than 1 year and not later than 5 years	<u>–</u>	<u>348</u>
	<u>1,766</u>	<u>2,171</u>

The details of the Group's investment properties are set out as follows:

Property name	Location	Type	Lease term
112 Apartments	112 Chun Yeung Street North Point, Hong Kong	Serviced apartments	Long lease
Changshou Commercial Plaza	Putuo District Shanghai, the PRC	Shopping arcade	Medium lease

16. GOODWILL

	Group	
	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
At 1 January	18,314	—
Acquisition of business	—	18,314
	<u>18,314</u>	<u>18,314</u>
At 31 March/31 December	<u>18,314</u>	<u>18,314</u>

17. INTERESTS IN SUBSIDIARIES

	Company	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Non-current assets:		
Unlisted shares at cost	10,000	10,000
Less: impairment provision	—	(1,000)
	<u>10,000</u>	<u>9,000</u>
Current assets:		
Amounts due from subsidiaries	<u>286,281</u>	<u>56,597</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

The following is a list of principal subsidiaries at 31 March 2007. Principal subsidiaries are those subsidiaries that are active and have commenced operations.

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Interest held	
				31/3/2007	31/12/2005
Arrow Star Investment Limited	Hong Kong	Property investment in Hong Kong	1 ordinary share of HK\$1	100%*	100%*
Grand Boom Investments Limited	Samoa	Investment in Hong Kong	1 ordinary share of US\$1	100%	100%
Great Partner International Limited	Hong Kong	Investment in Hong Kong	1 ordinary share of HK\$1	100%	100%
Great Partner Investment (Shenzhen) Limited ^Δ	PRC	Management and consulting in PRC	Registered capital of HK\$8,000,000	100%	100%
VXL Financial Services Limited	Hong Kong	Corporate finance advisory in Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%*	100%*
VXL Management Services Limited	Hong Kong	Management services in Hong Kong	1 ordinary share of HK\$1	100%*	100%*
Peak Moral High Commercial Development (Shanghai) Limited ^Δ	PRC	Property investment in PRC	Registered capital of US\$25,000,000	100%	–
VXL Corporate Advisory (Shanghai) Limited ^Δ	PRC	Management and consulting in PRC	Registered capital of US\$140,000	100%	–

* Shares held directly by the Company.

^Δ These companies do not have English names. These are only translation of their Chinese names.

18. INTERESTS IN ASSOCIATES

	Group	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Share of net liabilities of associates	(1,024)	(586)
Amounts due from associates (<i>note a</i>)	36,033	–
	35,009	(586)
Reclassified as trade and other payable (<i>note b</i>)	–	586
	35,009	–

The movement of the interests in associates is as follows:

	Group	
	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
At 1 January	–	2,286
Net (repayments from)/advances to associates during the period/year	(2,189)	1
Transfer from interests in subsidiaries	37,551	–
Share of losses before taxation	(476)	(439)
Share of taxation	–	(26)
Dividend income received from associates	(22)	(1,125)
Amount reclassified as other receivable	–	(1,283)
Share of deficit of an associate reclassified (from)/to other payables (<i>note b</i>)	(586)	586
Share of exchange reserve movement during the period	731	–
	<u>35,009</u>	<u>–</u>
At 31 March/31 December	<u>35,009</u>	<u>–</u>

- (a) The Company has confirmed that the amounts due from associates are regarded as equity in nature. Accordingly, the amounts are classified as equity instruments, which are recognized and carried at the amount of funding received and not subsequently remeasured.
- (b) The Group has undertaken to extend financial support to an associate to make good of its losses. Therefore, as at 31 December 2005, the Group has recognized its share of deficits of the associate in excess of its investments. During the fifteen months ended 31 March 2007, the Group has advanced a shareholder loan of HK\$900,000 to this associate.

The Group's interests in its associates, all of which are unlisted, are as follows:

	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Assets	35,232	1
Liabilities	36,256	587
	<u>(1,024)</u>	<u>(586)</u>
Revenues	<u>981</u>	<u>–</u>
Loss for the period/year	<u>(476)</u>	<u>(465)</u>

Details of the associates are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest indirectly held by the Company	
				31/3/2007	31/12/2005
Cruise City Holdings Limited	British Virgin Islands	Investment holding	100 ordinary shares of US\$1 each	30%	30%
Cruise City (Hong Kong) Limited	Hong Kong	Cruise terminal development	1 ordinary share of HK\$1	30%	30%
Million Sky Investments Limited	Samoa	Investment holding	1 ordinary share of US\$1	45%*	—
VXL International Leasing Company Limited ^Δ	PRC	Financial leasing	Registered capital of USD10,000,000	45%*	—

* In November 2006, the Group disposed 55% interest of these companies. Prior to the disposal, the Group indirectly held 100% interest in these companies. Details are set out in Note 7 to the financial statements.

^Δ This company does not have English name. This is only a translation of its Chinese name.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group and Company	
	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
At 1 January	476	—
Reclassified from other investments	—	256
Changes in fair value taken to reserve (Note 29)	80	220
At 31 March/31 December	<u>556</u>	<u>476</u>

There was no impairment of available-for-sale financial assets for the period/year.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Listed equity securities in Hong Kong held for trading, at market value	<u>16,505</u>	<u>591</u>

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31/3/2007	31/12/2005	31/3/2007	31/12/2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (note)	1,245	2,937	–	–
Other receivables	2,069	2,706	52	87
Receivable from an associate in liquidation	–	1,283	–	1,250
Prepayments and deposits	3,192	3,122	1,413	2,652
	<u>6,506</u>	<u>10,048</u>	<u>1,465</u>	<u>3,989</u>

(note) The ageing analysis of the trade receivables is as follows:

	Group	
	31/3/2007	31/12/2005
	HK\$'000	HK\$'000
Within 1 month	955	2,937
Between 1 and 3 months	290	–
	<u>1,245</u>	<u>2,937</u>

Trade receivables comprise rental income and corporate advisory fee. Rental income is billed in advance on a monthly basis and the corporate advisory fee is billed in accordance with the agreed terms of mandates. All billings are due on presentation.

22. BANK BALANCES AND CASH

	Group		Company	
	31/3/2007	31/12/2005	31/3/2007	31/12/2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at banks and in hand	17,940	11,623	449	1,088
Short term deposits with banks	3,030	111,348	–	111,348
	<u>20,970</u>	<u>122,971</u>	<u>449</u>	<u>112,436</u>

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

	Group		Company	
	31/3/2007	31/12/2005	31/3/2007	31/12/2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollars	12,917	91,808	445	81,307
Renminbi	7,909	27	–	–
US dollars	140	31,136	4	31,129
Other currencies	4	–	–	–
	<u>20,970</u>	<u>122,971</u>	<u>449</u>	<u>112,436</u>

The effective interest rate at 31 March 2007 for the short term deposits with banks was 1.62% (31 December 2005: within the range of 3.90% – 4.31%) per annum. These deposits have maturity periods of 7 days (31 December 2005: 7 to 31 days).

23. TRADE AND OTHER PAYABLES

	Group		Company	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Trade payables (<i>note b</i>)	234	2,019	–	–
Property cost payable (<i>note c</i>)	291,968	–	–	–
Other payables and accruals	32,822	7,730	2,058	1,799
Share of deficit of an associate	–	586	–	–
Deposit (<i>note d</i>)	84,857	–	–	–
	<u>409,881</u>	<u>10,335</u>	<u>2,058</u>	<u>1,799</u>

(a) The carrying amounts of the trade and other payables are denominated in the following currencies:

	Group		Company	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Hong Kong dollar	7,261	10,335	2,058	1,799
Renminbi	402,620	–	–	–
	<u>409,881</u>	<u>10,335</u>	<u>2,058</u>	<u>1,799</u>

(b) The ageing analysis of the trade payables is as follows:

	Group	
	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Within 1 month	184	2,001
Between 1 and 3 months	50	12
Over 3 months	–	6
	<u>234</u>	<u>2,019</u>

(c) This represents the remaining balance of consideration payable for acquiring the Changshou Properties. The amount is payable upon the drawdown of the mortgage loan on Changshou Properties.

(d) This represents earnest monies received from potential investors for the purpose of exploring collaboration in business opportunities in the PRC. The amount is refundable with interest at 12% per annum.

24. LONG-TERM BANK LOAN – SECURED

At 31 March 2007, the secured Hong Kong dollar bank loan was repayable as follows:

	Group	
	31/3/2007	31/12/2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year – current portion	3,000	2,174
Between 1 and 2 years	4,000	6,788
Between 2 and 5 years	93,000	22,982
Over 5 years	–	45,056
Non-current portion	97,000	74,826
	<u>100,000</u>	<u>77,000</u>

The bank loan is secured over certain investment properties of the Group with net book value of HK\$143,000,000 as at 31 March 2007 (31 December 2005: HK\$143,000,000) and guarantee from VXL Capital Limited. The effective interest rate as at 31 March 2007 was 5.23% (31 December 2005: 6%) per annum.

25. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2007, the Group and the Company had obligations under finance leases repayable as follows:

	Group and Company	
	31/3/2007	31/12/2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance lease liabilities – minimum lease payments:		
Within 1 year	376	508
Between 1 and 5 years	94	729
	<u>470</u>	<u>1,237</u>
Future finance charges on finance lease	(39)	(105)
	<u>431</u>	<u>1,132</u>
The present value of finance lease liabilities is as follows:		
Within 1 year – current portion	345	465
Between 1 and 5 years	86	667
	<u>431</u>	<u>1,132</u>

The effective interest rate as at 31 March 2007 on the finance lease is 5.6% (31 December 2005: range from 5.6% to 6.6%) per annum.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

26. AMOUNT DUE TO HOLDING COMPANY

During the period, VXLCP, the holding company, has granted a loan of HK\$129,000,000 to the Company. This loan is unsecured, bearing interest at HIBOR plus 1.75% and repayable within one year. As at 31 March 2007, the Group has accrued interest payable of HK\$551,000 (31 December 2005: HK\$Nil) on the loan.

27. DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when such accounts relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	31/3/2007	31/12/2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	1,421	396
Deferred tax liabilities	(57,128)	(18,922)
	<u>(55,707)</u>	<u>(18,526)</u>

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheet and the movements during the period/year are as follows:

	Revaluation of investment property	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2005	—	—	—
Acquisition of business (<i>Note 32(b)</i>)	(12,733)	—	(12,733)
(Charged)/credited to profit and loss account (<i>Note 10</i>)	(6,189)	396	(5,793)
At 31 December 2005	(18,922)	396	(18,526)
Acquisition of business (<i>Note 32(a)</i>)	(47,331)	—	(47,331)
(Charged)/credited to profit and loss account (<i>Note 10</i>)	10,182	1,025	11,207
Exchange difference	(1,057)	—	(1,057)
At 31 March 2007	<u>(57,128)</u>	<u>1,421</u>	<u>(55,707)</u>

Unrecognized deferred tax assets/(liabilities) are as follows:

	31/3/2007	31/12/2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unutilized tax losses	15,528	7,654
Accelerated depreciation allowance	(29)	(253)
	<u>15,499</u>	<u>7,401</u>

At 31 March 2007, the deferred tax assets on the Group's and the Company's unutilized tax losses of approximately HK\$84,457,000 and HK\$53,682,000 (31 December 2005: HK\$43,735,000 and HK\$20,727,000) respectively, which can be carried forward against future taxable income, have not been recognized due to the unpredictability of future profit streams. Included in the Group's tax losses, HK\$74,454,000 (31 December 2005: HK\$43,735,000) has no expiry date and HK\$10,003,000 (31 December 2005: HK\$Nil) expire within five years under the current tax legislation. The Company's unutilized tax losses have no expiry date under the current tax legislation.

28. SHARE CAPITAL

	<i>Number of shares</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.20 each		
Authorized:		
At 31 December 2005 and 31 March 2007	<u>200,000,000</u>	<u>40,000</u>
Issued and fully paid:		
At 1 January 2005 and 2006	72,000,000	14,400
Issue of shares on placement (<i>note</i>)	<u>4,400,000</u>	<u>880</u>
At 31 March 2007	<u>76,400,000</u>	<u>15,280</u>

Note: Pursuant to the Placing and Subscription Agreement entered into by the Company on 13 November 2006, 4,400,000 existing issued ordinary shares of HK\$0.20 each held by VXLCP were placed out to independent investors at a price of HK\$8.00 per ordinary share and 4,400,000 new ordinary shares of HK\$0.20 each were subscribed by VXLCP at a price of HK\$8.00 per ordinary share. These new ordinary shares rank pari passu with the existing issued ordinary shares in all aspects. The net proceeds from the placement has been applied as general working capital of the Group.

Share option scheme

On 5 June 2005, a share option scheme (the "Scheme") was approved and adopted by the Company, under which the directors may, at their discretion, offer to any employees and officers the options to subscribe for such number of shares as the Board may determine up to a maximum aggregate number of shares equal to 10% of the total issued shares of the Company. The purpose of the Scheme is to allow the eligible employees to participate in the equity of the Company in order to motivate such employees to optimize their performance standards and efficiency, and to attract and retain key employees whose contributions are important to the long term growth and profitability of the Group. The exercise price of the granted options is equal to the highest of (a) the nominal value of a Share on the date of offer; (b) the official closing price of Shares on the date of offer; and (c) the average of the official closing prices of Shares for the five business days immediately preceding the date of offer.

During the period, no share option was issued, exercised, cancelled, lapsed or outstanding.

29. RESERVES

(a) The Group

	Share premium HK\$'000	Available- for-sale financial assets reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2005	116,612	–	–	58,213	174,825
Changes in fair value of available-for-sale financial assets	–	220	–	–	220
Net profit for the year attributable to shareholders	–	–	–	4,067	4,067
At 31 December 2005	116,612	220	–	62,280	179,112
Issue of shares (Note 28)	33,797	–	–	–	33,797
Changes in fair value of available-for-sale financial assets	–	80	–	–	80
Translation exchange difference					
– Group	–	–	6,857	–	6,857
– Associates	–	–	731	–	731
Net profit for the period attributable to shareholders	–	–	–	63,544	63,544
At 31 March 2007	<u>150,409</u>	<u>300</u>	<u>7,588</u>	<u>125,824</u>	<u>284,121</u>

(b) The Company

	Share premium HK\$'000	Available- for-sale financial assets reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2005	116,612	–	60,982	177,594
Changes in fair value of available-for-sale financial assets	–	220	–	220
Loss for the year	–	–	(8,406)	(8,406)
At 31 December 2005	116,612	220	52,576	169,408
Issue of shares (Note 28)	33,797	–	–	33,797
Changes in fair value of available-for-sale financial assets	–	80	–	80
Loss for the period	–	–	(31,725)	(31,725)
At 31 March 2007	<u>150,409</u>	<u>300</u>	<u>20,851</u>	<u>171,560</u>

30. GUARANTEES

The Company has, for the purpose of application by VXLFS for admission to the list of GEM sponsors under GEM Listing Rules, provided a corporate guarantee to the Stock Exchange to guarantee the due and punctual payment of the liabilities of VXLFS up to an aggregate amount of HK\$10 million.

The Company provides a guarantee for the mortgage bank loan of an investment property of a subsidiary amounting to HK\$100 million (2005: HK\$77 million).

31. COMMITMENTS**(a) Operating lease commitments**

At 31 March 2007, the Group had commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	31/3/2007 HK\$'000	31/12/2005 HK\$'000
Not later than 1 year	5,366	3,171
Later than 1 year and not later than 5 years	486	3,198
	<u>5,852</u>	<u>6,369</u>

(b) Capital commitments

The Group has 30% effective interest in Cruise City Holdings Limited ("CCHL") and its subsidiary, Cruise City (Hong Kong) Limited, which submitted an Expression of Interest to the HKSAR Government for the New Cruise Terminal Development in December 2005. Pursuant to a joint venture agreement dated 8 December 2005, the Company has committed to advancing approximately HK\$3,000,000 to CCHL of which HK\$900,000 has been paid as at 31 March 2007.

Other than as mentioned above, as at 31 March 2007, the Group has commitments in respect of renovation costs of Changshou Properties amounting to HK\$5,798,000 (31 December 2005: HK\$Nil), which were contracted for but have not been recognized in these consolidated financial statements.

32. BUSINESS COMBINATIONS**(a) For the fifteen months ended 31 March 2007**

During the period, the Group acquired the entire issued share capital of Rich Field International Limited ("Rich Field") which has the right to acquire the north and south commercial podiums of Changshou Properties, located at Shanghai, PRC. Rich Field acquired the north commercial podium of Changshou Properties ("North Block") together with existing tenancies and therefore the acquisition of North Block constitutes a business combination.

Details of purchase consideration and net assets acquired are as follows:

	HK\$'000
Purchase consideration:	
– Cash paid or payable	246,989
– Direct costs of acquisition	11,970
	<u>258,959</u>
Total purchase consideration	258,959
Fair value of net assets acquired (<i>note</i>)	350,495
	<u>(91,536)</u>
Excess of fair value of net assets acquired over costs of acquisition	

Since the cash payments of HK\$279 million made during the period for the acquisition of Changshou Properties were not earmarked, the cash payments made for the North Block cannot be separately identified and hence, the cash paid for the acquisition of North Block is not disclosed in the above table.

(note) The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Acquiree's carrying amount HK\$'000
Investment property	397,826	258,959
Deferred tax liabilities (Note 27)	(47,331)	–
Net assets acquired	<u>350,495</u>	<u>258,959</u>

Excess of fair value of net assets acquired over costs of acquisition of HK\$91,536,000 was recognized in the profit and loss account during the period.

(b) For the year ended 31 December 2005

On 9 September 2005, the Group acquired a block of serviced apartments located at 112 Chun Yeung Street, North Point, together with certain furniture and equipment and existing tenancies. This acquisition constitutes a business combination. The acquired business contributed revenues of HK\$2,641,000 and operating profit of HK\$399,000 and fair value gain of HK\$33,574,000 to the Group for the period from 9 September 2005 to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

	HK\$'000
Purchase consideration:	
– Cash paid	33,000
– Direct costs of acquisition	5,581
– Mortgage loan drawn down	77,000
Total purchase consideration	115,581
Fair value of net assets acquired (note)	<u>97,267</u>
Goodwill	<u>18,314</u>

(note) Fair values of assets and liabilities acquired

	HK\$'000
Investment property	109,426
Property, plant and equipment	574
Deferred tax liabilities (Note 27)	(12,733)
Net assets acquired	<u>97,267</u>

33. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties during the period/year:

(a) Purchases of services

The Group has contracted with various related parties, which are corporations controlled by a director of the Company, to provide management and administrative services to the Group. The management and administrative fee paid and payable for the period is HK\$342,000 (year ended 31 December 2005: HK\$183,000).

For the year ended 31 December 2005, VXL Financial Services Limited ("VXLFS"), a wholly-owned subsidiary of the Company, engaged Kim Eng Corporate Finance (Hong Kong) Limited ("KECF") to provide professional services. Two of VXLFS's directors were also directors of KECF.

(b) Sales of services

In the previous financial year, VXLFS provided certain professional services to KECF. The amount received and receivable for the year ended 31 December 2005 was HK\$1,430,000.

(c) Rental charges

During the period, the Group entered into a tenancy agreement with the landlord, Smart Forward Services Limited, a corporation owned by a director of the Company, to lease a residential unit at a monthly rent of HK\$55,000 effective from 15 May 2006 for a period of 2 years. A rental deposit of HK\$110,000 has been placed with the landlord. The rental expense paid and payable for the period is HK\$578,000 (year ended 31 December 2005: HK\$Nil).

(d) Interest expenses

During the period, the Group has interest expenses paid and payable to VXL CPL amounting to HK\$3,572,000 for the loan as disclosed in Note 26 (year ended 31 December 2005: HK\$Nil).

(e) Key management compensation

	1/1/2006 to 31/3/2007 HK\$'000	1/1/2005 to 31/12/2005 HK\$'000
Salaries and other short-term employee benefits	11,727	5,874
Pension costs – defined contribution plan	100	59
Others	1,233	570
	<u>13,060</u>	<u>6,503</u>

34. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 14 May 2007, bank loan facilities of HK\$384 million have been obtained to finance the acquisition and refurbishment of Changshou Properties, which consist of a mortgage loan of HK\$307 million and a renovation loan of HK\$77 million. On 26 June 2007, a bank loan of HK\$131 million has been drawn down for the partial settlement of the balance payable for acquisition of Changshou Properties. Such mortgage loan is secured by the south commercial podium of Changshou Properties ("South Block"), interest-bearing at 7.2% per annum and repayable in seven years.
- (b) On 18 May 2007, the Company entered into a conditional agreement to sell the entire issued share capital of a subsidiary, VXLFS, for a consideration of HK\$11 million. The profit on disposal of VXLFS is estimated to be approximately HK\$1 million. Following the completion of the disposal, the Group will discontinue its financial services operation while the operation of property investment and securities investment will continue.
- (c) On 8 June 2007, the Group entered into an agreement to acquire 11 hotel properties from China Post Group Limited for an aggregate consideration of RMB176 million (equivalent to approximately HK\$181 million). The 11 hotel properties are located in the Gansu, Jilin, Shandong, Sichuan, Xinjiang, Hubei and Shaanxi provinces of the PRC. Subsequent to 31 March 2007, deposits totaling USD6.9 million (equivalent to approximately HK\$54 million and representing approximately 30% of the total consideration) has been placed to Shanghai United Assets and Equity Exchange, an organization approved by the Shanghai Municipal Government which serves as a comprehensive platform for assets and equity transactions. The acquisition will be completed upon fulfillment of all necessary registration procedures with relevant government authorities in the PRC in respect of the transfer of the title of the hotel properties. The remaining balance of the consideration, together with interest calculated at the applicable interest rate, shall be payable upon completion or on 31 December 2007, whichever is the earlier.
- (d) On 21 June 2007, the Board proposed a conditional subdivision of every one existing ordinary share of HK\$0.20 each into twenty new ordinary share(s) of HK\$0.01 each ("Subdivided Shares") in the share capital of the Company. Upon the subdivision becoming effective, the existing board lot size for trading will also be changed from 1,000 existing ordinary shares to 10,000 Subdivided Shares upon the subdivision becoming effective.
- (e) On 21 June 2007, the Board also proposed, upon the subdivision becoming effective, a conditional bonus issue of warrants to qualifying shareholders whose names appear on the register of members of the Company on 6 August 2007 on the basis of one warrant for every five Subdivided Shares held on 6 August 2007. Each warrant will entitle the holder thereof to subscribe in cash for one Subdivided Share at the initial subscription price of HK\$0.95 per Subdivided Share upon exercise of any subscription rights attaching to the warrant, subject to adjustment, at any time during a term of two years from the date of issue.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 62 to 138 were approved by the board of directors on 19 July 2007."

3. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the Group for the 15 months ended 31 March 2007:

FINANCIAL PERFORMANCE REVIEW

For the fifteen months ended 31 March 2007, turnover increased by 350% to HK\$33.9 million. The growth in turnover was due to a remarkable increase in corporate advisory fees and rental income generated from 112 Apartments. Rental income from 112 Apartments grew by 278% to HK\$10.0 million for the fifteen months period, while the income of the financial services business, with a turnover of HK\$22.0 million, rose by 346%. In line with the rise in turnover, operating expenses increased by 104% for the reporting period. During the reporting period, the Group has increased resources in the Property and Corporate Finance divisions for the Changshou Commercial Plaza ("Changshou Properties") and the growing business in the financial sectors. The Group has taken additional new office premises for the expansion. As a result, staff costs, office rental payments, legal and professional costs and consultancy fees had increased as compared to last financial year.

The Group's profit attributable to shareholders was HK\$63.5 million, representing an increase of fifteen times compared to that in the previous financial year. The strong performance in the fifteen months was primarily attributed to the capital appreciation, net of deferred tax, of the Group's retail properties in Shanghai, Changshou Properties, totaling approximately HK\$100.3 million.

BUSINESS REVIEW AND CORPORATE DEVELOPMENT**Property investment***CHANGSHOU PROPERTIES: Retail spaces in Shanghai*

The acquisition of Changshou Properties was completed in the first quarter of 2007. A renovation plan to enhance the retail spaces was mapped out. A professional task force has been engaged in monitoring the progress of the renovation, which is scheduled for completion by the fourth quarter of 2007. The properties are expected to start contributing revenue to the Group in 2008.

Despite a series of measures introduced by the Chinese Government recently to cool down the economy, the macro-economic environment remains favorable and the GDP of the PRC, which amounted to RMB20,941 billion, grew by 10.7% in 2006. Retail sales in Shanghai are also strong, rising by 13% to RMB336 billion in 2006. The growth was the largest since 1998.

The positive sentiment on the retail market in the PRC was reflected in the considerable capital appreciation of Changshou Properties located at Putuo District, one of the central urban zones in north-west Shanghai. The 6-storey retail spaces (total gross floor area: approximately 41,000 sq.m.) will soon be repositioned as a unique shopping mall after major renovation, which is expected to be completed in the fourth quarter of 2007. The revenue to be generated by Changshou Properties is expected to become one of the key income streams for the Group in 2008.

112 APARTMENTS: Serviced apartment tower in Hong Kong

For the fifteen months ended 31 March 2007, rental income and occupancy rate of 112 Apartments improved and contributed stable revenue to the Group owing to an increase in the demand for serviced apartments in prime locations. As of 31 March 2007, 112 Apartments registered an improved occupancy rate of 89.6%, compared to 64% as of 31 December 2005. In light of the positive market response, rental rate of 112 Apartments has increased within the range of 9% to 17% in the fourth quarter of 2006.

Expatriates have given rise to a strong demand for serviced apartments in major cities of the PRC, including Hong Kong. The Group believes that it has secured such a source of tenants and the market outlook remains optimistic. With sound property management, the Group will continue to seek new investment opportunities in service-oriented properties in the PRC to secure long-term return.

HONG KONG CRUISE CITY: Concept Development project in Hong Kong

In October 2006, the Hong Kong government announced its decision to develop a Cruise Terminal in Kai Tak. Subsequent to the submission of an Expression of Interest to the government in December 2005, the Group formed a task force to conduct a technical and commercial viability study with regard to the cruise terminal development. The Group and its cruise partners are dedicated to promoting the concepts of "Cruise Economy" and "Cruise City", and believe that the development of a cruise terminal along with enhancement facilities will bring substantial benefits and give a boost to the economy of Hong Kong.

The Group is actively studying the tender for the new cruise terminal development in old Kai Tak area and is renewing the prospects for entering into a bid along with the Group's consortium members.

Financial services

VXL INTERNATIONAL LEASING CO. LTD.

VXL International Leasing Company Limited (卓越國際租賃有限公司) ("VXLIL") was incorporated in Beijing by the Group on 24 February 2006 initially as an indirect wholly-owned subsidiary. It is principally engaged in the operational and financial leasing of various types of machinery and equipment in the PRC.

To facilitate the smooth operation of VXLIL, the Group disposed of its 55% interest to VXLCP, the major shareholder of the Company. The disposal was completed on 15 November 2006 and aimed at simplifying the operation of VXLIL and utilizing resources to be deployed on business development, helping enhance the growth of VXLIL in the long run.

Since February 2007, VXLIL has been active in the leasing market and brought in revenue for the Group. By taking advantage of the recent relaxation of the rules on the involvement of foreign companies in the leasing sector in the PRC, the leasing business is expected to become a stable source of income for the Group's financial leasing arm.

VXL FINANCIAL SERVICES LIMITED

For the fifteen months ended 31 March 2007, VXLFS recorded a revenue of HK\$22.0 million, a substantial increase of 346% over the HK\$4.9 million for the year ended 31 December 2005. This was mainly due to a one-off corporate advisory consultation fee the Group received from a listed group.

On 18 May 2007, the Group has entered into a conditional agreement to dispose of its 100% equity interest in VXLFS. The disposal will provide additional funds for the Group's property projects and also enable the Group to focus its resources on property investment. Following the completion of the disposal expected by end of July 2007, the Group would discontinue its financial services operation while the operation of property investment and securities investment will continue.

Resources investment

In order to focus the Group's resources on property-related investments, the Group is prepared to scale down its efforts in seeking investment opportunities in natural resources.

FUTURE PLAN

The Group's business portfolio has been generating recurring income during the fifteen months under review, and the Group's consistent growth is to be sustained by the continued acquisition of high-quality properties in the Greater China regions. Having laid the foundation of recurring income streams, the Group will proactively move on to Concept Development projects.

In the coming year, strong emphasis will be placed on the preparation of the tender for the Cruise Terminal Development in Kai Tak scheduled for submission in the first quarter of 2008. By taking part in the cruise terminal project, the Group aims to bring a robust "Cruise Economy" to Hong Kong.

The Group's proposed Cruise City features a world-class cruise terminal, a maritime academic museum, a training school and a theme park with iconic landmarks. The cruise terminal project aims to attract world-class cruises as well as affluent cruise passengers from all over the world, turning Hong Kong into an "Asian Regional Cruise Hub," and the gateway to the rest of the PRC.

BUDGET HOTELS

On 8 June 2007, the Group has entered into an agreement for the acquisition of 11 hotel properties from China Post Group, a State-owned enterprise in the PRC by an open tender process conducted through Shanghai United Assets and Equity Exchange.

The properties comprise 11 hotel assets spread out in the southwest, northwest and northeast regions of the PRC located in Gansu, Jilin, Shandong, Sichuan, Xinjiang, Hubei and Shaanxi Provinces respectively. All hotels are well located within the city centre and in the vicinity of train stations. The Group intends to revamp the hotel properties and upgrade its available facilities, with a view to establishing a brand name of "U" Inns Hotel which aims to provide quality and value added service budget hotel.

The PRC's tourism industry has been growing rapidly and recorded an annual increase of more than 11% in income in the past 5 years. In 2005, total income of tourism industry in the PRC was RMB768.6 billion which was an increase of 12% from 2004 and is gradually extended to the second and third tier cities. The Board believes that the acquisition represents an incomparable opportunity for the Group to acquire a scalable network of hotel properties and extend its reach to and build up its property portfolio in various cities and provinces in the PRC and bring in long-term capital appreciation and the Group targets to acquire more hotels in 2007 and 2008.

FINANCIAL HIGHLIGHTS**Turnover**

For the fifteen months ended 31 March 2007, the Group achieved a turnover of HK\$33.9 million, mainly comprised of corporate advisory fees and rental income from an investment property.

The turnover increased by 350% compared to the year ended 31 December 2005. There is a remarkable increase in corporate advisory fees as a result of the business growth of VXLFS in the current financial year and a one-off corporate advisory consultation fee received from a listed group. In addition, the rental income generated from an investment property also rose as a result of growth in rental and occupancy rates. The Group began to benefit from a foundation laid in previous years, including selecting a valuable property and establishing a high-caliber management team.

During the fifteen months period, the Group recorded a fair value gain on listed investments of HK\$2.0 million (year ended 31 December 2005: loss of HK\$0.1 million), mainly resulting from the revaluation of trading securities as at 31 March 2007.

Other income and gain

During the fifteen months ended 31 March 2007, the Group recorded a total gain from capital appreciation of Changshou Properties, net of deferred tax, of HK\$100.3 million. In addition, the Group also generated an interest income of HK\$2.9 million during the period under review.

Operating expenses

The operating costs for the fifteen months increased by 104% to HK\$68.8 million compared to HK\$33.7 million for the year ended 31 December 2005. The expenses mainly comprise staff costs, office rental payments, and depreciation of office premises, as well as legal and professional costs and consultancy fees incurred in pursuing potential projects by the Group. The increase in the operating costs is mainly attributed to the longer financial period as a result of the change of the financial year end, as well as the increased level of operations of VXLFS and the investment property.

Taxation

The tax credit of HK\$11.2 million mainly represents a reduction in deferred tax liabilities as a result of reduction of the PRC corporate income tax rate.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained a bank and cash balance of HK\$21.0 million as of 31 March 2007. Cash reserves have been placed with major banks in Hong Kong and the PRC in the form of Hong Kong dollar and Renminbi deposits. Risk in exchange rate fluctuation would not be material.

As of 31 March 2007, the Group had bank loans (secured over certain of its investment properties valued at HK\$143.0 million) totaling HK\$100.0 million, of which HK\$3.0 million was due within one year, and HK\$97.0 million was due after one year and within 5 years. The Group also had a loan of HK\$129.0 million due to holding company drawn down during the current financial year, which is interest-bearing and payable within one year. This loan from the holding company was mainly used for acquisition of the Changshou Properties. The Group has planned to finance its projects by internal resources and bank borrowings. In addition, the Group had total obligations under finance leases of HK\$0.4 million, which will mature within three years.

As of 31 March 2007, the Group had a gearing ratio of 70%, which is measured on the basis of the Group's total interest-bearing debt net of cash reserves over the shareholders' funds. As the Group carried surplus cash reserves after netting its borrowings on 31 December 2005, no gearing ratio existed at that time.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2007, the Group had a total of 56 employees, including executive directors. The Group's remuneration policy and packages for the executive directors and senior management are reviewed and recommended by the Remuneration, Quality and Nomination Committee and approved by the Board of Directors on an annual basis while that for other employees' are reviewed and approved by the Chief Executive Officer. The Group remunerates its employees based on industry practice and the performance of each individual. The Group also offers discretionary bonuses, medical insurance, and a provident fund, and provides a share option scheme for its employees and executive directors.

4. INDEBTEDNESS**Borrowings**

As at 31 October 2007, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding Hong Kong dollars borrowings of HK\$227,000,000, Renminbi borrowings of RMB402,206,000 and United States dollar borrowings of USD7,600,000 (equivalent to a total of approximately HK\$700,404,000 using exchange rates of RMB1 to HK\$1.03 and USD1 to HK\$7.75025 for translation of Renminbi and United States dollar borrowings respectively), which comprise the following:

	HK\$
Secured bank loans repayable	
Within one year	4,000,000
Between one and two years	41,261,765
Between two and five years	257,720,353
Over five years	149,080,382

	452,062,500
Unsecured other loans repayable	
Within one year	248,111,997

Finance lease obligations	
Within one year	230,000

	700,404,497
	=====

Bank loans in the amount of approximately HK\$452,063,000 are secured over investment properties of the Group with a carrying value of approximately HK\$1,027,829,000 as at 30 September 2007. The net book value of the Group's motor vehicle held under finance lease amounted to approximately HK\$735,000 as at 31 March 2007.

Disclaimer

Saved as disclosed above, as at the close of business on 31 October 2007, the Group did not have any outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account the internal resources of the Enlarged Group, available banking and other facilities, loans obtained from VXCPL, the controlling shareholder of the Company, and subject to the grant of certain loan facilities from financial institutions the negotiation of which is in the final stage, the Enlarged Group has sufficient working capital for its present requirements and for the period ending twelve months from the date of this circular.

VXCPL has confirmed its intention to provide such financial assistance to the Company so that it will continue its operations as a going concern in the foreseeable future and that it will be able to meet its liabilities when they fall due.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware, as at the Latest Practicable Date, of any material adverse change in the financial or trading position of the Group since 31 March 2007, the date to which the latest published audited financial statements of the Company were made up.

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

The following is an illustrative and unaudited pro forma statement of the assets and liabilities of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Second Acquisition as if it had taken place on 31 March 2007. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Second Acquisition been completed as at 31 March 2007 or at any future date.

	Audited consolidated assets and liabilities of the Group 31 March 2007 HK\$'000 (Note 1)	Pro forma adjustments HK\$'000 (Note 2)	Unaudited pro forma statement of assets and liabilities of the Enlarged Group HK\$'000
Non-current assets			
Property, plant and equipment	5,550	130,490	136,040
Investment properties	891,561		891,561
Land use rights	—	11,895	11,895
Goodwill	18,314		18,314
Interest in an associate	35,009		35,009
Available-for-sale financial assets	556		556
	<u>950,990</u>		<u>1,093,375</u>
Current assets			
Financial assets at fair value through profit	16,505		16,505
Trade and other receivables	6,506		6,506
Bank balances and cash	20,970		20,970
	<u>43,981</u>		<u>43,981</u>
Total assets	<u>994,971</u>		<u>1,137,356</u>
Current liabilities			
Trade and other payables	(409,881)		(409,881)
Long-term bank loan	(3,000)		(3,000)
Obligations under finance leases	(345)		(345)
Amount due to holding company	(129,551)		(129,551)
	<u>(542,777)</u>		<u>(542,777)</u>
Non-current liabilities			
Long-term bank loan	(97,000)		(97,000)
Other loan	—	(142,385)	(142,385)
Obligations under finance leases	(86)		(86)
Deferred tax liabilities	(55,707)		(55,707)
	<u>(152,793)</u>		<u>(295,178)</u>
Total liabilities	<u>(695,570)</u>		<u>(837,955)</u>

Notes:

1. The balances are extracted from the audited consolidated balance sheet of the Group as at 31 March 2007 as set out in the Group's annual report for the 15 months ended 31 March 2007.
2. The adjustments represent the acquisition cost of the Properties amounting to RMB120.3 million (equivalent to approximately HK\$123.9 million) payable to the Vendors and the incidental costs including deed tax and land premium estimated to be approximately RMB17.9 million (equivalent to approximately HK\$18.5 million) payable in connection with the Properties, as if the Second Acquisition was completed on 31 March 2007. According to the Agreement, interest calculated based on the applicable bank interest rate will be charged on the unpaid balance of the aggregate consideration. As such, upon completion of the Second Acquisition, the aggregate amount of the total consideration may be different from the amount shown in the above unaudited pro forma statement of assets and liabilities.
3. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 March 2007. In particular:
 - a. on 18 May 2007, the Group entered into an agreement with Ms. Leung Mei Han to dispose of the entire share capital of VXL Financial Services Limited at a consideration of HK\$11.0 million, details of which were disclosed in the Company's circular dated 8 June 2007;
 - b. on 8 June 2007, the Group entered into an agreement with certain state-owned enterprises under China Post Group to acquire 11 hotel properties at a consideration of approximately RMB176.5 million, details of which were disclosed in the Company's circular dated 29 June 2007; and
 - c. on 23 August 2007, the Group entered into an agreement with High Joy International Limited to dispose of its 45% interest in Million Sky Investments Limited at a consideration of approximately RMB34.8 million, details of which were disclosed in the Company's circular dated 13 September 2007.

The aforesaid transactions entered into subsequent to 31 March 2007 are not reflected in this pro forma statement of assets and liabilities.
4. For the purpose of this pro forma statement of assets and liabilities, amounts denominated in RMB are translated into HK\$ at the exchange rate of RMB1 to HK\$1.03.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

**REPORT FROM ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF VXL CAPITAL LIMITED**

We report on the unaudited pro forma financial information set out on pages 63 to 64 under the heading of "Unaudited Pro Forma Statement of Assets and Liabilities" (the "Unaudited Pro Forma Financial Information") in Appendix II of the circular dated 14 December 2007 (the "Circular") of VXL Capital Limited (the "Company"), in connection with the proposed acquisition of hotel properties by a wholly-owned subsidiary of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 63 to 64 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 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.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted historical financial information of the Group with the audited consolidated financial statements of the Group for the 15 months ended 31 March 2007, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2007 or any future dates.

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 rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 December 2007

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL, an independent property valuer, in connection with its valuation as at 31 October 2007 of the Properties.

永利竹 評值顧問有限公司 | RHL Appraisal Ltd

Surveying Practices - Corporate Valuation and Property Consultancy
License No.: C-015672

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14 December 2007

The Board of Directors
VXL Capital Limited
Suite 2707-8,
One Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

INSTRUCTION

In accordance with your instructions to value the properties (hereinafter referred to as “the Properties” in which **VXL Capital Limited** (hereinafter referred to as “the Company”) and its subsidiaries (hereinafter referred to as “the Group”) propose to acquire, we confirm that we have carried out site inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market values of the properties as at 31 October 2007 (hereinafter referred to as the “Date of Valuation”).

This letter which forms part of our valuation report explains the basis and methodology of valuation, clarifying assumption, valuation considerations and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuations are our opinion of the market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation 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.

VALUATION METHODOLOGY

In our valuation, direct comparison method is adopted where comparison based on prices realised on actual sales of comparable properties are made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market values.

VALUATION CONSIDERATIONS

In valuing the Properties, we have complied with all the requirements contained in Chapter 5 of and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors effective from 1 January 2005.

ASSUMPTIONS

Our valuation under estimated market value is based on assumption that the land use rights of the Properties were granted for residential/hostel use or other equivalent uses. The titles of the properties are legal and valid and the properties can be freely transferred, sublet, and mortgaged and were free from any encumbrances.

As property no. 4 to be acquired are held under long term Land Use Right Contracts, we have assumed that Owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of their respective Land Use Right Contracts without payment of any substantial sum of taxes or expenses. We have valued the property interests on an open market basis assuming sale with vacant possession.

As land use rights of property nos. 1, 2, 3 and 5 situated in the PRC is allocated or leasehold in nature which the alienation of the property is restricted and cannot be freely transferred, sublet and mortgaged, we have attributed no commercial value to these properties. Before the land use rights of the properties can be freely transferred, application for approval to the relative administrative bureau has to be processed and the government authorities may require additional land premium to be paid. In our valuations, we assume that there will be no legal impediment to process all the land use right registration or transfer procedures.

The user condition of the land use rights of property nos. 1, 4 and 5 situated in the PRC is restricted to non-residential uses. Before the Properties are legally and validly for residential / hostel use or other equivalent uses, application for approval to the relative administrative bureau has to be processed and the government authorities may require additional land premium to be paid. In our valuations, we assume that there will be no legal impediment to process all the said registration or procedures.

Our valuations have been made on the assumption that the owners sell the Properties in the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the properties interests.

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

Other special assumptions of the Properties, if any, have been stated out in the footnotes of the valuation certificate attached herewith.

TITLE INVESTIGATION

We have been, in some instances, provided with extracts of title documents relating to the Properties in the PRC. However, we have not examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied, to a considerable extent on the information provided by the Group and the legal opinion prepared by the Company's PRC legal advisers, Shanghai Li Guo Ji Lawyer (上海市李國機律師事務所), on the owners' title to those Properties.

All legal documents supplied by the Group have been used for reference only. No responsibility regarding legal title to the Properties is assumed in this valuation report.

LIMITING CONDITIONS

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, land use right, site areas, particulars of occupancy and all other relevant matters in the identification of the Properties in which the owner has a valid interest.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Properties but have assumed that the site areas shown on the documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the Properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have 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.

Liability in connection with this valuation report is limited to the client to whom this report is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

REMARKS

All monetary sums stated in this report are in Renminbi ("RMB").

Our summary of values and valuation certificates are attached herewith.

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

Serena S. W. Lau
FHKIS AAPI RPS(GP)
Registered PRC Real Estate Appraiser
Managing Director

Shirley Yeung
BSc MHKIS MRICS
Associate Director

Ms. Serena S. W. Lau is a Registered Professional Surveyor with over 16 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is 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. Shirley Y. F. Yeung, a member of the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors, has over 8 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific region.

SUMMARY OF VALUATION

Properties to be acquired by the Group in the PRC for Investment Purpose

Property	Market value in existing state as at 31 October 2007 RMB
1. Portion of Longnan Post Hotel, Jianshe Road South, Longnan City, Gansu Province, The PRC*	No Commercial Value
2. Portion of Yingkou Boyuquan Post Hotel, Kunlundaie, Boyuquan, Yingkou City, Liaoning Province, The PRC*	No Commercial Value
3. Linzhi Post Hotel, Xianggang Road and Linyin Road, Bayi Town, Linzhi District, Tibet Autonomous Region, The PRC*	No Commercial Value
4. Portion of Wafangdian Post Hotel, No.9 Station Front Square, Tiedong Office, Wafangdian City, Liaoning Province, The PRC*	28,000,000
5. Portion of Weifang Post Hotel, No.22 Jianshe Street, Weifang City, Shandong Province, The PRC*	No Commercial Value
Grand-total:	<u>28,000,000</u>

VALUATION CERTIFICATE

Properties to be acquired by the Group in the PRC for Investment Purpose

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2007 RMB								
1. Portion of Longnan Post Hotel, Jianshe Road South, Longnan City, Gansu Province, The PRC* (中國甘肅省隴南市建設南路隴南市郵政賓館之一部份)	Longnan Post Hotel (the development) comprises a 7-storey hotel and other 5 ancillary buildings of various storey erected on a parcels of land with a site area of approximately 6,099.79 sq.m. and total gross floor area of approximately 13,569.24 sq.m. completed in about 2002. The property proposed to be acquired is a 7-storey hotel comprising a roofed-over site area of approximately 764.75 sq.m. and gross floor area of approximately 4,634.75 sq.m. The property has accommodated a total of 73 guest rooms, including 8 large rooms, 9 single rooms and 56 standard rooms. The uses of each level are as follows: <table><thead><tr><th>Level</th><th>Uses</th></tr></thead><tbody><tr><td>Level 1</td><td>Hotel lobby, reception counter and retail shops</td></tr><tr><td>Level 2</td><td>Restaurant, Bowling alley</td></tr><tr><td>Level 3-7</td><td>Guest room</td></tr></tbody></table> The land use rights of the development were allocated for public infrastructure facilities (公共基礎設施) use.	Level	Uses	Level 1	Hotel lobby, reception counter and retail shops	Level 2	Restaurant, Bowling alley	Level 3-7	Guest room	The property was occupied for hostel/hotel operations.	No Commercial Value
Level	Uses										
Level 1	Hotel lobby, reception counter and retail shops										
Level 2	Restaurant, Bowling alley										
Level 3-7	Guest room										

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate – Gan Guo Yong (2003) Di No. 1732 issued by the People's Government of Gansu Province dated 24 September 2003, the land use rights of the development with a total gross site area of approximately 6,099.79 sq. m. was allocated to 隴南地區郵政局 for public infrastructure facilities (公共基礎設施) use.
2. Pursuant to the Building Ownership Certificate – Wu Du Qu Fang Quan Zheng Cheng Guan Zhen Zi Di No. 015225 issued by the People's Government of Gansu Wudu County dated 7 September 2006, the development with total site area of approximately 6,099.79 sq.m. and gross floor area of approximately 13,569.24 sq.m. are legally vested in 隴南地區郵政局. The details are set out as follows:

Building No.	No. of Storey	GFA (sq.m.)	Uses
1	7	9,517.38	Office
2	4	2,496.94	Office
3	1	248.47	Office
4	1	252.08	Office
5	3	1,054.37	Residential
		Total:	<u>13,569.24</u>

3. As advised, the construction cost of portion of the property is outstanding on the Date of Valuation and we have not taken into account the outstanding construction cost into the valuation.
4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The vendors have obtained the legal State-owned Land Use Rights Certificate for the allocated land and the legal Building Ownership Certificate.
 - (ii) The vendors will cooperate with the purchaser to complete the land use rights grant process. Therefore, there is no legal impediment for the transfer of the allocated land.
 - (iii) After the approval by the related land administration department of the city or town government, and the purchaser completed the land use rights grant process and paid the land use rights grant fee according to the legal regulations, the purchaser can be granted the land use rights immediately.
 - (iv) It is possible to change the land use of the land to commercial use. For allocated land, the change of land use should obtain approval from the urban planning construction department and real estate administration department to confirm the land use after land use rights grant and the relevant land use rights grant contract should be signed.
 - (v) Since no detailed investigation has been made regarding the land use rights, no information can be made about the relevant land planning, thus no opinion can be made on whether the urban planning administration department will approve the change of land use. However, this is related to the land planning policy, but will not be legal impediment for the purchaser to change the use of the land use rights. After the purchaser has legally applied for approval and completed the required process, it is possible to change the use of the land use rights.
 - (vi) There is no legal impediment to obtain an approval from the government and consent from the vendors to change the use of the building.
5. We have attributed no commercial value to the property since the land use rights of the property was allocated in which the alienation of the property is restricted and cannot be freely transferred, sublet and mortgaged. For reference purpose, we are of the opinion that the market value of the property in its existing states as at the date of valuation, assuming all land premium, taxes and expenses have been fully settled and is entitled to be freely disposed of in the market, would be RMB19,000,000.

Our valuation under estimated market value is based on assumption that the land use rights of the Properties were granted for residential/hostel use or other equivalent uses. The titles of the properties are legal and valid and the properties can be freely transferred, sublet, and mortgaged and were free from any encumbrances.

6. A summary of major certificates/approvals is shown as follows:

(i)	State-owned Land Use Rights Certificate	Yes
(ii)	Building Ownership Certificate	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2007 RMB																																														
2. Portion of Yingkou Boyuquan Post Hotel, Kunlundajie, Boyuquan, Yingkou City, Liaoning Province, The PRC* (中國遼寧省營口市 鱈魚圈昆崙大街 營口市鱈魚圈 郵政大廈 之一部份)	Yingkou Bayuquan Post Hotel (the development) is mainly comprised a 17-storey hotel excluding a basement level, a single-storey post centre and a post office erected on a plot of land with a site area of approximately 9,333.96 sq.m. and total gross floor area of approximately 13,852.07 sq.m. completed in the about 1995. The development is comprised as follows: <table><tr><th>Use</th><th>Gross Floor Area (approx)(sq.m.)</th></tr><tr><td>17-storey hotel</td><td>13,280.71</td></tr><tr><td>Single storey postal centre</td><td>140.56</td></tr><tr><td>Postal office</td><td>430.80</td></tr><tr><td>Total</td><td>13,852.07</td></tr></table> The property proposed to be acquired is a 17-storey hotel comprising a roofed-over area of approximately 2,965 sq.m. and gross floor area of approximately 13,280.71 sq.m. It accommodates a total of 78 guest rooms including 10 large rooms, 44 single rooms and 24 couple rooms. The uses of each level are as follows: <table><tr><th>Level</th><th>Uses</th><th>GFA (sq.m.)</th></tr><tr><td>Basement</td><td></td><td>746.70</td></tr><tr><td>Level 1</td><td>Hotel lobby, reception counter</td><td></td></tr><tr><td>Level 2</td><td>Pub, Function Room</td><td></td></tr><tr><td>Level 3</td><td>Restaurant</td><td></td></tr><tr><td>Level 4-5</td><td>Back of house office and staff quarter</td><td>12,317.10</td></tr><tr><td>Level 6-8</td><td>Guest Room</td><td></td></tr><tr><td>Level 9</td><td>Conference Room</td><td></td></tr><tr><td>Level 10</td><td>Office</td><td></td></tr><tr><td>Level 11-16</td><td>Guest Room</td><td></td></tr><tr><td>Level 17</td><td>Plant Room</td><td>216.91</td></tr><tr><td>Total</td><td></td><td>13,280.71</td></tr></table> The land use rights of the property were allocated for commercial service use.	Use	Gross Floor Area (approx)(sq.m.)	17-storey hotel	13,280.71	Single storey postal centre	140.56	Postal office	430.80	Total	13,852.07	Level	Uses	GFA (sq.m.)	Basement		746.70	Level 1	Hotel lobby, reception counter		Level 2	Pub, Function Room		Level 3	Restaurant		Level 4-5	Back of house office and staff quarter	12,317.10	Level 6-8	Guest Room		Level 9	Conference Room		Level 10	Office		Level 11-16	Guest Room		Level 17	Plant Room	216.91	Total		13,280.71	The property was occupied for hostel/hotel operations.	No Commercial Value
Use	Gross Floor Area (approx)(sq.m.)																																																
17-storey hotel	13,280.71																																																
Single storey postal centre	140.56																																																
Postal office	430.80																																																
Total	13,852.07																																																
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Level 9	Conference Room																																																
Level 10	Office																																																
Level 11-16	Guest Room																																																
Level 17	Plant Room	216.91																																															
Total		13,280.71																																															

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate -Ba Yu Juan Guo Yong (2004) Di No. 0029 issued by the People's Government of Bayu Juan District date 24 February 2004, the land use rights of the development with a total gross site area of approximately 9,333.96 sq. m. was allocated to 營口市鯊魚圈區郵政局 for commercial service use.
2. Pursuant to the *Building Ownership License (房產執照) – Ying Fang Zhi Zi Di No. 0005679 issued by the People's Government of Yingkou City in 1996, the development with a gross floor area of approximately 17,000 sq.m. was granted to 鯊魚圈區郵政局.
3. Pursuant to the *Notification (証明) issued by 營口市郵政局 dated 28 February 2007, the property completed in May 1994 has a total gross floor area of 13,280.71 sq.m., including a basement level of 746.7 sq.m. and a plant room on level 17 of 216.91sq.m. but excluding a single storey postal centre of 140.56 sq.m. and a postal office of 430.80 sq.m.
4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The vendors have obtained the legal State-owned Land Use Rights Certificate for the allocated land.
 - (ii) The vendors will cooperate with the purchaser to complete the land use rights grant process. Therefore, there is no legal impediment for the transfer of the allocated land.
 - (iii) After the approval by the related land administration department of the city or town government, and the purchaser completed the land use rights grant process and paid the land use rights grant fee according to the legal regulations, the purchaser can be granted the land use rights immediately.
 - (iv) It is possible to change the land use of the land to commercial use. For allocated land, the change of land use should obtain approval from the urban planning construction department and real estate administration department to confirm the land use after land use rights grant and the relevant land use rights grant contract should be signed.
 - (v) Since no detailed investigation has been made regarding the land use rights, no information can be made about the relevant land planning, thus no opinion can be made on whether the urban planning administration department will approve the change of land use. However, this is related to the land planning policy, but will not be legal impediment for the purchaser to change the use of the land use rights. After the purchaser has legally applied for approval and completed the required process, it is possible to change the use of the land use rights.
 - (vi) There is no legal impediment to obtain an approval from the government and consent from the vendors to change the use of the building.
5. We have attributed no commercial value to the property since the land use rights of the property was allocated in which the alienation of the property is restricted and cannot be freely transferred, sublet and mortgaged. For reference purpose, we are of the opinion that the market value of the property in its existing states as at the date of valuation, assuming all land premium, taxes and expenses have been fully settled and is entitled to be freely disposed of in the market, would be RMB39,000,000.

Our valuation under estimated market value is based on assumption that the land use rights of the Properties were granted for residential/hostel use or other equivalent uses. The titles of the properties are legal and valid and the properties can be freely transferred, sublet, and mortgaged and were free from any encumbrances.
6. A summary of major certificates/approvals is shown as follows:

(i) State-owned Land Use Rights Certificate	Yes
(ii) Building Ownership Certificate	No
(iii) Building Ownership License (房產執照)	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2007 RMB																						
3. Linzhi Post Hotel, Xianggang Road and Linyin Road, Bayi Town, Linzhi District, Tibet Autonomous Region, The PRC* (中國西藏自治區林芝地區八一鎮香港路與林蔭路交叉路口林芝地區郵政大酒店)	Linzhi Post Hotel (the development), comprises a 5-storey hotel, a 3-storey western ancillary building and a 2-storey eastern ancillary building erected on a plot of land with a site area of approximately 4,963.44 sq.m. and gross floor area of approximately 6,997.01 sq.m. completed from 1998 to 2002. The property proposed to be acquired comprising two parcels of land with a total site area of approximately 4,251.84 sq.m. and 3 buildings with a gross floor area of approximately 6,997.01 sq.m. The use of the buildings are as follows: <table><tr><th>Buildings</th><th>Uses</th></tr><tr><td colspan="2">5-storey hotel</td></tr><tr><td>Level 1</td><td>Hotel lobby, reception counter</td></tr><tr><td>Level 2-4</td><td>Guest Room</td></tr><tr><td>Level 5</td><td>Restaurant</td></tr><tr><td colspan="2">3-storey western ancillary building</td></tr><tr><td>Level 1</td><td>Retail Shops</td></tr><tr><td>Level 2-3</td><td>Guest Room</td></tr><tr><td colspan="2">2-storey eastern ancillary building</td></tr><tr><td>Level 1</td><td>Restaurant</td></tr><tr><td>Level 2</td><td>Karaoke</td></tr></table> The land use rights of a site area of 3,390.94 sq.m. were allocated for a term expiring in 2050 for office use and the land use rights of a site area of 1,572.50 sq.m. were leased for a term expiring in 2040 for commodity house use.	Buildings	Uses	5-storey hotel		Level 1	Hotel lobby, reception counter	Level 2-4	Guest Room	Level 5	Restaurant	3-storey western ancillary building		Level 1	Retail Shops	Level 2-3	Guest Room	2-storey eastern ancillary building		Level 1	Restaurant	Level 2	Karaoke	The property was occupied for hostel/hotel operations.	No Commercial Value
Buildings	Uses																								
5-storey hotel																									
Level 1	Hotel lobby, reception counter																								
Level 2-4	Guest Room																								
Level 5	Restaurant																								
3-storey western ancillary building																									
Level 1	Retail Shops																								
Level 2-3	Guest Room																								
2-storey eastern ancillary building																									
Level 1	Restaurant																								
Level 2	Karaoke																								

Notes

1. Pursuant to the State-owned Land Use Rights Certificate – Guo Yong (Lin Tu) Zi Gong Di Nos. 2000-030 and 2000-031 issued by the People's Government of Xizangzizhi Linzhidiqu District date 26 June 2000, the land use rights of the property, with a site area of 4,963.44 sq.m. was partly allocated and partly leased to 林芝地區郵政局. The details are as follows:

State-owned Land Use Rights Certificate No.	Date of Issue	Nature	Use	Site Area (sq.m.)	Expired Year
Guo Yong (Lin Tu) Zi Gong Di No. 2000-030	26-Jun-2000	Allocated	Office	3,390.94	2050
Guo Yong (Lin Tu) Zi Gong Di No. 2000-031	26-Jun-2000	Leased	Commodity House	1,572.50	2040
Total:				4,963.44	

2. Pursuant to the Building Ownership Certificate – Lin Zhi Xian Gong Zi Di No.701000526, and 701000528, 701002780 and 701002781 issued by the People's Government of Gansu Wudu County dated 6 March 2001 and 27 June 2007 respectively, the property with gross floor area of approximately 6,305.32 sq.m. are legally vested in 西藏林芝地區郵政局. The details are set out as follows:

Building Ownership Certificate No.	Date of Issue	Building no.	GFA (sq.m.)	Uses	Term
Lin Zhi Xian Gong Zi Di No.701000526	06-Mar-2001	1	1,905.50	–	26-Jan-2000 – 26-Jan-2040
Lin Zhi Xian Gong Zi Di No.701000528	06-Mar-2001	2	2,746.60	Commodity	26-Jan-2000 – 26-Jan-2040
Lin Zhi Xian Gong Zi Di No.701002780	27-Jun-2007	1	298.80	Residential	26-Jan-2000 – 26-Jan-2050
		2	55.50	Machine	
Lin Zhi Xian Gong Zi Di No.701002781	27-Jun-2007	3	1,298.92	Drink	26-Jan-2000 – 26-Jan-2050
Total:			6,305.32		

3. Pursuant to the *Notification (關於房屋建築物及土地情況的說明) issued by 西藏林芝地區郵政局 dated 4 February 2007 and other relevant documents, the property, with a parcel of the land with site area of approximately 453.75 sq.m. and various buildings with a total gross floor area of approximately 2,344.91 sq.m., are not yet to be granted with proper title certificate(s) as at 30 March 2007. Portion of the details are as follows:

Buildings	Date of Completion	No. of storey	Gross Floor Area (sq.m.)
Hotel's Conference Room	Oct-2001	2	780.00
Hotel's Restaurant	Apr-2001	1	231.86
House	Dec-1998	1	373.21
Hotel's ancillary room	Nov-2002	1	54.76
Staff quarter of Hotel's Restaurant	Nov-2002	1	119.88
Decoration Area of Hotel's Restaurant	Nov-2002	1	785.20
Total:			2,344.91

Land to be sectioned	Nature	Site Area (sq.m.)
Lin Tu Zi Gong Di No. 2000-031	Allocation	453.75
Total:		453.75

4. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
- (i) The vendors have obtained the legal State-owned Land Use Rights Certificate for the allocated land and the legal Building Ownership Certificate.
 - (ii) The vendors will cooperate with the purchaser to complete the land use rights grant process. Therefore, there is no legal impediment for the transfer of the allocated land.
 - (iii) After the approval by the related land administration department of the city or town government, and the purchaser completed the land use rights grant process and paid the land use rights grant fee according to the legal regulations, the purchaser can be granted the land use rights immediately.
 - (iv) It is possible to change the land use of the land to commercial use. For allocated land, the change of land use should obtain approval from the urban planning construction department and real estate administration department to confirm the land use after land use rights grant and the relevant land use rights grant contract should be signed.
 - (v) Since no detailed investigation has been made regarding the land use rights, no information can be made about the relevant land planning, thus no opinion can be made on whether the urban planning administration department will approve the change of land use. However, this is related to the land planning policy, but will not be legal impediment for the purchaser to change the use of the land use rights. After the purchaser has legally applied for approval and completed the required process, it is possible to change the use of the land use rights.
 - (vi) There is no legal impediment to obtain an approval from the government and consent from the vendors to change the use of the building.
5. We have attributed no commercial value to the property since the land use rights of the property was allocated in which the alienation of the property is restricted and cannot be freely transferred, sublet and mortgaged. For reference purpose, we are of the opinion that the market value of the property in its existing states as at the date of valuation, assuming all land premium, taxes and expenses have been fully settled and is entitled to be freely disposed of in the market, would be RMB17,000,000.
- Our valuation under estimated market value is based on assumption that the land use rights of the Properties were granted for residential/hostel use or other equivalent uses. The titles of the properties are legal and valid and the properties can be freely transferred, sublet, and mortgaged and were free from any encumbrances.
6. A summary of major certificates/approvals is shown as follows:
- (i) State-owned Land Use Rights Certificate Yes
 - (ii) Building Ownership Certificate Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2007 RMB										
4. Portion of Wafangdian Post Hotel, No.9 Station Front Square, Tiedong Office, Wafangdian City, Liaoning Province, The PRC* (中國遼寧省瓦房店市鐵東辦站前廣場9號瓦房店郵政賓館之一部份)	Wafangdian Post Hotel (the development) comprises a 14-storey composite building, an office building and a boiler room erected on a plot of land with a site area of approximately 2,736 sq.m. and total gross floor area of approximately 14,427.58 sq.m. completed in about 1998. The property proposed to be acquired is a 14-storey composite building excluding the eastern of level 1. The property comprises a roofed-over area of approximately 1,104 sq.m. and gross floor area of approximately 11,087.52 sq.m. The uses of each level are as follows: <table><tr><th>Levels</th><th>Uses</th></tr><tr><td>Portion of Level 1</td><td>Hotel lobby, reception counter</td></tr><tr><td>Level 2-3</td><td>Restaurant</td></tr><tr><td>Level 4-12</td><td>Guest Rooms</td></tr><tr><td>Level 13-14</td><td>Observation Deck</td></tr></table> The property accommodates a total 62 guest rooms, including 55 standard rooms and 7 large rooms. The land use rights of the development were granted for a term expiring on 11th April 2044 for municipal infrastructure use (市政設施)	Levels	Uses	Portion of Level 1	Hotel lobby, reception counter	Level 2-3	Restaurant	Level 4-12	Guest Rooms	Level 13-14	Observation Deck	The property was occupied for hotel operations.	28,000,000
Levels	Uses												
Portion of Level 1	Hotel lobby, reception counter												
Level 2-3	Restaurant												
Level 4-12	Guest Rooms												
Level 13-14	Observation Deck												

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate – Wa Guo Yong (2000) Zi Di No.0154 issued by the Planning and Land Administration Bureau of Wafangdian City dated 13th June 2000, the land use rights of the development with a site area of approximately 2,736 sq.m. was granted to 瓦房店市郵政局 for a term expiring on 11th April 2044 for municipal infrastructure use (市政設施).
2. Pursuant to the Building Ownership Certificate – Wa Fang Quan Zheng Tie Dan Zi Di No. 200000413 issued by the Real Estate Administrative Bureau of Wafangdian City, the development with a total gross floor area of approximately 11,596.72 sq.m. is vested in 瓦房店市郵政局 for office use.
3. As advised by the Company, portion of the eastern of level 1 of the property approximately 509.2 sq.m. is not taken into account in the valuation.
4. As advised by the Company, the leasehold interest of the property commencing from 10 June 2005 to 9 May 2008 is not taken into account in the valuation.
5. Our valuation under estimated market value is based on assumption that the land use rights of the Properties were granted for residential/hostel use or other equivalent uses. The titles of the properties are legal and valid and the properties can be freely transferred, sublet, and mortgaged and were free from any encumbrances.
6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The vendors have obtained the legal State-owned Land Use Rights Certificate for the granted land and the legal Building Ownership Certificate.
 - (ii) The subject land of the property is free from any encumbrances.
 - (iii) There is no legal impediment for the transfer of the granted land use rights.
 - (iv) It is possible to change the land use of the land to commercial use. For granted land use rights, approval has to be obtained.
 - (v) There is no legal impediment to modify the user restriction of original Land Use Rights Contract, after obtained a consent from the government and the land owner, obtained Agreement of Land Use Rights (Transfer) Modification or re-signed Land Use Rights (Transfer) Contract, and payment of additional land premium (if applicable).
 - (vi) There is no impediment to obtain an approval from the government and consent from the vendors (if any) to change the use of the building.
7. A summary of major certificates/approvals is shown as follows:

(i) State-owned Land Use Rights Certificate	Yes
(ii) Building Ownership Certificate	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2007 RMB																												
5. Portion of Weifang Post Hotel, No.22 Jianshe Street, Weifang City, Shandong Province, The PRC* (中國山東省濰坊市建設街22號濰坊市郵電賓館之一部份)	Weifang Post Hotel (the development) comprises a 16-storey hotel excluding 2 basement levels and various ancillary buildings erected on a plot of land with a site area of approximately 12,613.00 sq.m. and total gross floor area of approximately 21,716.63 sq.m. completed in about 1996. The property proposed to be acquired comprises a 16-storey hotel erected upon 2 basement levels (the "Hotel"), an ancillary dinning room and an electrical distribution room with a total roofed-over site area of approximately 2,200.2 sq.m. and gross floor area of approximately 14,404 sq.m. As advised by the Company, the details are as follows: <table><thead><tr><th>Buildings</th><th>Gross Floor Area (approx.) (sq.m.)</th></tr></thead><tbody><tr><td>Hotel</td><td>11,896.00</td></tr><tr><td>Ancillary Dinning room</td><td>2,248.00</td></tr><tr><td>Electrical Distribution room</td><td>260.00</td></tr><tr><td>Total:</td><td><u>14,404.00</u></td></tr></tbody></table> The hotel accommodates a total 80 guest rooms, including 69 standard rooms and 11 large rooms and ancillary facilities including dinning room, conference room, sauna etc., The uses of each level of the Hotel are as follows: <table><thead><tr><th>Level</th><th>Uses</th></tr></thead><tbody><tr><td>Basement 1-2</td><td>Storage</td></tr><tr><td>Level 1</td><td>Hotel lobby, reception counter</td></tr><tr><td>Level 2</td><td>Restaurant</td></tr><tr><td>Level 3</td><td>Function rooms</td></tr><tr><td>Level 6</td><td>Restaurant</td></tr><tr><td>Level 7-14</td><td>Guest Room</td></tr><tr><td>Level 15</td><td>Bathroom</td></tr><tr><td>Level 16</td><td>Plant Room</td></tr></tbody></table> The land use rights of the development were allocated for public infrastructure use.	Buildings	Gross Floor Area (approx.) (sq.m.)	Hotel	11,896.00	Ancillary Dinning room	2,248.00	Electrical Distribution room	260.00	Total:	<u>14,404.00</u>	Level	Uses	Basement 1-2	Storage	Level 1	Hotel lobby, reception counter	Level 2	Restaurant	Level 3	Function rooms	Level 6	Restaurant	Level 7-14	Guest Room	Level 15	Bathroom	Level 16	Plant Room	The property was currently vacant.	No Commercial Value
Buildings	Gross Floor Area (approx.) (sq.m.)																														
Hotel	11,896.00																														
Ancillary Dinning room	2,248.00																														
Electrical Distribution room	260.00																														
Total:	<u>14,404.00</u>																														
Level	Uses																														
Basement 1-2	Storage																														
Level 1	Hotel lobby, reception counter																														
Level 2	Restaurant																														
Level 3	Function rooms																														
Level 6	Restaurant																														
Level 7-14	Guest Room																														
Level 15	Bathroom																														
Level 16	Plant Room																														

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Wei Guo Yong (2006) Di No.B125 issued by the People's Government of Weifang City dated 7 June 2006, the land use rights of the development with a site area of approximately 12,613 sq.m. was allocated to 潍坊市郵政局 for public infrastructure use. (公共基礎設施)
2. Pursuant to a Building Ownership Certificate – Wei Fang Zheng Shi Shu Zi Guan Zi Di No. 001932 issued by the Real Estate Administrative Bureau of Weifang City dated 9 March 2001, 4 buildings with a total gross floor area of approximately *21,716.63 sq.m. were vested in 潍坊市郵政局 for office use. The details are set out as follows:

Block	No. of Storey	Gross Floor Area (approx.) (sq.m.)	Use
1	17	19,672.09	Office
2	4	260.00	Office
3	—	1,263.40	Office
4	2	521.23	Office
Total:		<u>*21,716.63</u>	

* As stipulated in the Building Ownership Certificate

3. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (i) The vendors have obtained the legal State-owned Land Use Rights Certificate for the allocated land and the legal Building Ownership Certificate.
 - (ii) The vendors will cooperate with the purchaser to complete the land use rights grant process. Therefore, there is no legal impediment for the transfer of the allocated land.
 - (iii) After the approval by the related land administration department of the city or town government, and the purchaser completed the land use rights grant process and paid the land use rights grant fee according to the legal regulations, the purchaser can be granted the land use rights immediately.
 - (iv) It is possible to change the land use of the land to commercial use. For allocated land, the change of land use should obtain approval from the urban planning construction department and real estate administration department to confirm the land use after land use rights grant and the relevant land use rights grant contract should be signed.
 - (v) Since no detailed investigation has been made regarding the land use rights, no information can be made about the relevant land planning, thus no opinion can be made on whether the urban planning administration department will approve the change of land use. However, this is related to the land planning policy, but will not be legal impediment for the purchaser to change the use of the land use rights. After the purchaser has legally applied for approval and completed the required process, it is possible to change the use of the land use rights.
 - (vi) There is no legal impediment to obtain an approval from the government and consent from the vendors to change the use of the building.
4. We have attributed no commercial value to the property since the land use rights of the property was allocated in which the alienation of the property is restricted and cannot be freely transferred, sublet and mortgaged. For reference purpose, we are of the opinion that the market value of the property in its existing states as at the date of valuation, assuming all land premium, taxes and expenses have been fully settled and is entitled to be freely disposed of in the market, would be RMB34,000,000.

Our valuation under estimated market value is based on assumption that the land use rights of the Properties were granted for residential/hostel use or other equivalent uses. The titles of the properties are legal and valid and the properties can be freely transferred, sublet, and mortgaged and were free from any encumbrances.

5. A summary of major certificates/approvals is shown as follows:
 - (i) State-owned Land Use Rights Certificate Yes
 - (ii) Building Ownership Certificate Yes

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein 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 in which they have taken or deemed to have taken 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:

(A) Long Position in Shares and underlying Shares of the Company

Name of Directors	Nature of interests	Note	Ordinary Shares/ underlying Shares of HK\$0.01 each	Approximate % of issued Shares
Datuk LIM Chee Wah	Interests in Shares – Corporate interests	1	1,069,308,000	69.90%
	Interests in Warrants – Corporate interests	2	153,861,600	–
	Interests in Share Options – Personal interests	3	4,400,000	–
			<u>1,227,569,600</u>	
Percy ARCHAMBAUD-CHAO	Interests in Shares – Corporate interests	4	300,000,000	19.61%
	Interests in Warrants – Corporate interests	5	60,000,000	–
	Interests in Share Options – Personal interests	3	4,400,000	–
			<u>364,400,000</u>	
Patsy SO Ying Chi	Interests in Share Options – Personal interests	3	<u>4,400,000</u>	–

Notes:

1. The corporate interests of 1,069,308,000 Shares are held by VXCPL, a company wholly and beneficially owned by Datuk Lim Chee Wah ("Datuk Lim"). The interests in 1,069,308,000 Shares comprises 769,308,000 Shares which are beneficially owned by VXCPL and 300,000,000 Shares which are deemed to be interested by VXCPL as security interests. The 300,000,000 Shares are duplicated with the interests of Mr. Percy ARCHAMBAUD-CHAO ("Mr. A. Chao") as set out in note 4 of this section and the interests of VXCPL and Huge More Limited ("Huge More") as set out in note 2 of the section "Substantial Shareholders' Interests in Securities".
2. The corporate interests of 153,861,600 Warrants are held by VXCPL and duplicated with the interests of VXCPL as set out in note 3 of the section "Substantial Shareholders' Interests in Securities".
3. Details of the interests in Share Options are set out separately in the section "Interests in Share Options".
4. The corporate interests of 300,000,000 Shares are held by Huge More, a company wholly and beneficially owned by Mr. A. Chao. The 300,000,000 Shares are duplicated with the security interests deemed to be interested by VXCPL as set out in note 1 of this section and the interests of VXCPL and Huge More as set out in note 2 of the section "Substantial Shareholders' Interests in Securities".
5. The corporate interests of 60,000,000 Warrants are held by Huge More and duplicated with the interests of Huge More as set out in note 4 of the section "Substantial Shareholders' Interests in Securities".
6. All the interests disclosed above represent long position in the Shares or underlying Shares.

(B) Interests in Share Options

Share Options granted to Directors under the Share Option Scheme of the Company adopted at annual general meeting of the Company held on 3 June 2005 and remain outstanding as at Latest Practicable Date are:

Name of Directors	Number of Share Options outstanding	Exercise price (HK\$)	Grant date	Exercisable period
Datuk LIM Chee Wah	4,400,000	0.77	23/08/2007	23/08/2007-22/08/2012
Percy ARCHAMBAUD-CHAO	4,400,000	0.77	23/08/2007	23/08/2007-22/08/2012
Patsy SO Ying Chi	4,400,000	0.77	23/08/2007	23/08/2007-22/08/2012

Notes:

The above Directors' Share Options to subscribe for Shares are exercisable as to:

- (a) up to 20% immediately after date of grant;
- (b) up to 46.7% immediately after 12 months from date of grant;
- (c) up to 73.3% immediately after 24 months from date of grant; and
- (d) up to 100% immediately after 36 months from date of grant.

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 have taken or deemed to have taken under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company 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 members of the Group or have any options in respect of such capital:

Name of Shareholders	Nature of Interests	Note	Ordinary Shares/ underlying Shares of HK\$0.01 each	Approx. % of issued Shares
VXL Capital Partners Corporation Limited	Interests in Shares – Beneficial interests	1	769,308,000	50.29%
	Interests in Shares – Security interests	2	300,000,000	19.61%
	Interests in Warrants – Beneficial interests	3	153,861,600	–
			<u>1,223,169,600</u>	
Huge More Limited	Interests in Shares – Beneficial interests	2	300,000,000	19.61%
	Interests in Warrants – Beneficial interests	4	60,000,000	–
			<u>360,000,000</u>	

Notes:

- 769,308,000 Shares are beneficially owned by VXL CPL, which is wholly and beneficially owned by Datuk Lim, the Chairman of the Board and an executive Director of the Company. Datuk Lim is also a director of VXL CPL.
- 300,000,000 Shares are beneficially owned by Huge More and are deemed to be interested by VXL CPL as security interests. Huge More is wholly and beneficially owned by Mr. A. Chao, the Chief Executive Officer and an executive Director of the Company. Mr. A. Chao is also a director of Huge More. These 300,000,000 Shares duplicated among themselves in this section and as set out in notes 1 and 4 of the section "Directors' and Chief Executive's Interests in Securities".
- 153,861,600 Warrants are beneficially owned by VXL CPL and duplicated with the interests of Datuk Lim as set out in note 2 of the section "Directors' and Chief Executive's Interests in Securities".
- 60,000,000 Warrants are beneficially owned by Huge More and duplicated with the interests of Mr. A. Chao as set out in note 5 of the section "Directors' and Chief Executive's Interests in Securities".
- All the interests disclosed above represent long position in the Shares or underlying Shares.

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 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 members 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) the joint venture agreement dated 8 December 2005 entered into among Fullbrim Limited, Cruise City (BVI) Limited, Grand Boom Investments Limited (a wholly-owned subsidiary of the Company), Nan Fung Development Limited, Star Cruises Asia Holding Limited, the Company, Cruise City Holdings Limited (formerly known as “Shine Pacific Investments Limited”) and Cruise City (Hong Kong) Limited (formerly known as “Proteam Services Limited”) for the formation of a joint venture company, pursuant to which the Company agreed to inject share capital and shareholder’s loan in the amount of US\$30 (equivalent to approximately HK\$234) and HK\$2,999,767.5 respectively into the joint venture company (*note 1*);
- (b) a sale and purchase agreement dated 7 March 2006 entered into between VXL Properties Holdings Limited (“VXL Properties”), a wholly-owned subsidiary of the Company, Ms. Yeung Pui Shan (“Ms. Yeung”) and Rich Field International Limited (“Rich Field”), pursuant to which VXL Properties agreed to purchase the entire issued capital of Rich Field and to make certain loans (the “Loan”) to Rich Field; which has been superseded by the revised agreement dated 26 May 2006 referred in (i) below (*note 2*);
- (c) a share charge dated 7 March 2006 given by Ms. Yeung and Rich Field in favour of VXL Properties whereby Ms. Yeung as chargor charged to VXL Properties as chargee by way of a first fixed charge, as continuing security for the discharge of Ms. Yeung’s obligations under the agreement dated 7 March 2006 referred in (b) above, the one share in Rich Field together with all further shares, warrants, securities, dividends and other distributions, rights, money or property accruing, paid, offered or deriving therefrom or in respect thereof; which has been superseded by the share charge referred in (j) below (*note 2*);
- (d) a deed of charge dated 7 March 2006 given by Rich Field in favour of VXL Properties whereby Rich Field charged to VXL Properties (i) a first floating charge over all book debts and other debts and the proceeds of realization thereof and all monies whatsoever for the time being due, owing or payable to Rich Field, and the benefit of any security interests and securities for the time being held by Rich Field in respect of any such debts or monies; and (ii) a first fixed charge over 2 shares of Daily Right Limited (“Daily Right”) registered in the name of Rich Field, being the entire issued share capital of Daily Right, as security for the Loan (*note 2*);
- (e) a memorandum of understanding dated 27 December 2005 (as amended and supplemented on 5 March, 8 May and 10 August 2006) among Daily Right, Moral High Limited (“Moral High”), a wholly-owned subsidiary of Daily Right, 上海宏偉房地產開發有限公司 (Shanghai Hongwei Property Development Company Limited*, “Hongwei”) and (in respect of the supplemental memorandum dated 10 August 2006 only) 峻領德高商業發展(上海)有限公司 (Peak Moral High Commercial Development (Shanghai) Company Limited*, “Peak Moral”), a wholly foreign-owned enterprise established in the PRC held by Moral High (*note 2*);

- (f) a sale and purchase contract dated 25 February 2006 (as amended and supplemented on 4 March, 5 March and 8 May 2006) entered into between Hongwei and Moral High in respect of the property situated at 長壽商業廣場 (Changshou Commercial Plaza*) with address known as 上海普陀區陝西北路《長壽商業廣場C樓商場》1347, 1351, 1355, 1359, 1363, 1367, 1371, 1375, 1379, 1383號1層1-6層室(No. 1347, 1351, 1355, 1359, 1363, 1367, 1371, 1379, 1383, Level 1 to Level 6, Block C, Changshou Commercial Plaza Block, Xian Xi Bei Road, Putuo Area, Shanghai*) (the “South Block”); which has been superseded by the agreement referred in (m) below (*note 2*);
- (g) a sale and purchase contract dated 27 February 2006 together with its supplemental terms, as superseded by six property sale contracts all dated 5 March 2006, entered into between Hongwei and Moral High in respect of the sale and purchase of the property situated at 長壽商業廣場 (Changshou Commercial Plaza*) with address known as 上海普陀區長壽路《長壽商業廣場(北塊)》幢155(號)1-6層室(No. 155, Level 1 to Level 6, Changshou Commercial Plaza (North Block), Changshou Road, Putuo Area, Shanghai*) (the “North Block”); which has been superseded by the contracts referred in (n) below (*note 2*);
- (h) a guarantee undertaking dated 27 February 2006 given by 上海強生置業有限公司 (Shanghai Qiangsheng Property Company Limited*) in favour of Moral High guaranteeing the due performance of Hongwei under the sale and purchase contracts referred in (f) and (g) above (*note 2*);
- (i) a revised agreement dated 26 May 2006 (as supplemented by an agreement dated 21 June 2006) entered into among Rich Field, Ms. Yeung, VXL Properties, the Company and Benefitway Investments Limited in relation to the sale by Ms. Yeung and purchase by each of VXL Properties and Benefitway Investments Limited of 50% of the issued share capital of Rich Field, which agreement has lapsed (*note 3*);
- (j) a share charge dated 26 May 2006 executed by Ms. Yeung and Rich Field in favour of VXL Properties charging two issued shares of US\$1.00 each in the capital of Rich Field (representing the entire issued share capital of Rich Field) to VXL Properties to secure repayment of the Loan and all other monies owing by Rich Field to VXL Properties from time to time; which is supplemented by the supplemental share charge referred in (l) below (*note 3*);
- (k) a second revised agreement dated 3 August 2006 entered into among Rich Field, VXL Properties and Ms. Yeung in relation to the sale and purchase of two issued shares of US\$1.00 each in the capital of Rich Field, representing the entire issued share capital of Rich Field (*note 4*);
- (l) a supplemental share charge dated 3 August 2006 executed among Ms. Yeung, Rich Field and VXL Properties to amend the share charge dated 26 May 2006 referred in (j) above (*note 4*);
- (m) a sale and purchase contract dated 15 August 2006 entered into between Hongwei and Peak Moral in respect of the sale and purchase of the South Block (*note 4*);
- (n) six property sale contracts all dated 15 August 2006 entered into between Hongwei and Peak Moral in respect of the sale and purchase of the North Block (*note 4*);
- (o) a guarantee undertaking dated 15 August 2006 given by 上海華揚賽利實業發展有限公司 (Shanghai Huayang Saili Enterprise Development Company Limited*) in favour of Peak Moral guaranteeing the due performance of Hongwei under the sale and purchase contracts referred in (m) and (n) above (*note 4*);

- (p) a conditional agreement dated 9 October 2006 entered into between VXL Investments Holdings Limited (“VXL Investments”), a wholly-owned subsidiary of the Company, and VXL CPL, the controlling shareholder of the Company, whereby the Group agreed to dispose 55% of the issued shares of and shareholder’s loan due from Million Sky Investments Limited (“Million Sky”) to VXL CPL for an aggregate consideration of HK\$42,070,665.45 (*note 5*);
- (q) a Placing and Subscription Agreement dated 13 November 2006 entered into among the Company, VXL CPL and Celestial Capital Limited (“Placing Agent”) in relation to the placing of a maximum of 4,400,000 Shares then existed by VXL CPL through the Placing Agent to independent placees and the subscription by VXL CPL of new Shares for such number of existing Shares placed (*note 6*);
- (r) a sale and purchase contract dated 30 January 2007 entered into between Hongwei and Peak Moral in respect of the sale and purchase of the property situated at 長壽商業廣場 (Changshou Commercial Plaza*) with address known as 上海普陀區長壽路175號《長壽商業廣場》1層底層室 (Ground Level, Changshou Commercial Plaza, No.175 Changshou Road, Putuo Area, Shanghai*) (*note 4*);
- (s) a sale and purchase contract dated 30 January 2007 entered into between Hongwei and Peak Moral in respect of the sale and purchase of the property situated at 長壽商業廣場 (Changshou Commercial Plaza*) with address known as 上海普陀區長壽路179號《長壽商業廣場》1層底層室 (Ground Level, Changshou Commercial Plaza, No.179 Changshou Road, Putuo Area, Shanghai*) (*note 4*);
- (t) a sale and purchase agreement dated 18 May 2007 entered into between the Company and Ms. Leung Mei Han in relation to the disposal of the entire issued share capital of VXL Financial Services Limited (*note 7*);
- (u) a sale and purchase agreement dated 8 June 2007 entered into among 陝西省郵政公司 (Shaanxi Post Company*); 吉林省郵政公司 (Jilin Post Company*); 山東省郵政公司 (Shandong Post Company*); 甘肅省郵政公司 (Gansu Post Company*); 四川省郵政公司 (Sichuan Post Company*); 新疆維吾爾自治區郵政公司 (Xinjiang Post Company*); and 湖北省郵政公司 (Hubei Post Company*) (each a State-owned enterprise under China Post Group) and 你的客棧(西安)酒店管理有限公司 (“U” Inns & Hotels (Xi An) Management Co., Ltd.); 你的客棧(通化)酒店管理有限公司 (“U” Inns & Hotels (Tong Hua) Management Co., Ltd.); 你的客棧酒店(威海)有限公司 (“U” Inns & Hotel (Wei Hai) Limited); 你的客棧(金昌)酒店管理有限公司 (“U” Inns & Hotels (Jin Chang) Management Co., Ltd.); 你的客棧酒店(四川)有限公司 (“U” Inns & Hotel (Si Chuan) Limited); 你的客棧酒店管理(吐魯番地區)有限公司 (“U” Inns & Hotels (Tu Lu Fan) Management Co., Ltd.); 你的客棧酒店管理(布爾津縣)有限公司 (“U” Inns & Hotels (Bu Er Jin) Management Co., Ltd.); 你的客棧(武漢)酒店管理有限公司 (“U” Inns & Hotels (Wu Han) Management Co., Ltd.); and 你的客棧(襄樊)酒店管理有限公司 (“U” Inns & Hotels (Xiang Fan) Management Co., Ltd.) (each a wholly-owned subsidiary of the Company established in the PRC) whereby the Group agreed to purchase 11 budget hotels properties (*note 8*);
- (v) a sale and purchase agreement dated 23 August 2007 entered into between VXL Investments and High Joy International Limited whereby the Group agreed to dispose of 45% of the issued shares of and the shareholder’s loan due from Million Sky to High Joy International Limited for an aggregate consideration of RMB34,785,000 (*note 9*);
- (w) the Agreement; and
- (x) a provisional sale and purchase agreement dated 26 November 2007 and the related formal sale and purchase agreement dated 7 December 2007 entered into between Arrow Star Investment Limited (“Arrow Star”), a wholly-owned subsidiary of the Company, and Mega Rainbow Limited (“Purchaser”) pursuant to which Arrow Star agreed to sell and the Purchaser agreed to purchase the property situated at 112 Chun Yeung Street, North Point, Hong Kong for a consideration of HK\$161,000,000 (*note 10*).

Notes

1. Details of the agreement were disclosed in the Company's announcement dated 21 December 2005.
2. Details of the contract(s) were disclosed in the Company's announcements dated 9 March 2006, 31 March 2006 and 28 April 2006 and circular dated 23 June 2006.
3. Details of the contract(s) were disclosed in the Company's announcements dated 1 June 2006 and 27 July 2006 and circular dated 23 June 2006.
4. Details of the contract(s) were disclosed in the Company's announcement dated 3 August 2006 and circular dated 25 August 2006.
5. Details of the agreement were disclosed in the Company's announcements dated 9 October 2006, 27 October 2006, 14 November 2006 and 15 November 2006 and circular dated 27 October 2006.
6. Details of the agreement were disclosed in the Company's announcements dated 13 November 2006 and 24 November 2006.
7. Details of the agreement were disclosed in the Company's announcement dated 18 May 2007 and circular dated 8 June 2007.
8. Details of the agreement were disclosed in the Company's announcement dated 11 June 2006 and circular dated 29 June 2007.
9. Details of the agreement were disclosed in the Company's announcement dated 23 August 2007 and circular dated 13 September 2007.
10. Details of the agreement were disclosed in the Company's announcement dated 27 November 2007.

5. LITIGATION

As at the Latest Practicable Date, 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.

6. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
RHL Appraisal Ltd.	Professional property valuers

Each of PricewaterhouseCoopers and RHL 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, neither PricewaterhouseCoopers nor RHL had any shareholding, directly or indirectly, in any member of the Group or the 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, neither PricewaterhouseCoopers nor RHL had any direct or indirect interests in any assets which had been, since 31 March 2007 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to the Enlarged Group, or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

7. SERVICE CONTRACT

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. CONTRACTS OR ARRANGEMENT AND COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and his/her 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 2007 (the date to which the latest published audited financial statements of the Company were made up).

As at the Latest Practicable Date, save for (i) the tenancy agreement between the Group and Smart Forward Services Limited, a company wholly and beneficially owned by Datuk Lim Chee Wah, the Chairman of the Board and an executive Director the Company, to lease certain residential premises in Hong Kong, with monthly rental of HK\$55,000 (details of which were contained in an announcement of the Company dated 15 May 2006); (ii) the provision of management and administrative services by DP International Pte. Ltd., a company in which Datuk Lim Chee Wah held indirect beneficial interests, to the Group for a fee of Singaporean dollars 4,655 per month; and (iii) the short-term unsecured shareholder's loans of approximately HK\$202.9 million in aggregate borrowed by the Group from VXCPL and bearing interest at HIBOR/LIBOR plus 1.75% 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 Suite 2707-8, One Exchange Square, 8 Connaught Place, Central, Hong Kong, from the date of this circular and up to and including 31 December 2007:

- (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 the year ended 31 December 2005 and the fifteen months ended 31 March 2007;
- (d) the letter from PricewaterhouseCoopers in relation to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix II to this circular;
- (e) the property valuation report issued by RHL contained in Appendix III to this circular;
- (f) the letters of consent referred to under the section headed "Experts and Consents" in this appendix; and
- (g) a copy of each circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 31 March 2007 (being the date of the latest published audited accounts).

10. GENERAL

- (a) The company secretary of the Company is Ms. Ada MAK Yuk Ling. She is an associate member of The Hong Kong Institute of Chartered Secretaries.
- (b) The qualified accountant of the Company is Ms. YAU Yue Ka. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.
- (c) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The registered office of the Company is situated at Suite 2707-8, One Exchange Square, 8 Connaught Place, Central, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.