

### **13. PLEDGE OF ASSETS**

At September 30, 2006, the Group pledged bank deposits of HK\$4,286,000 (March 31, 2006: HK\$4,219,000) as securities for banking facilities granted to a subsidiary and as securities for the credit card business transactions with MasterCard International Inc.

The Group's borrowing of HK\$148,862,000 (March 31, 2006: HK\$63,061,000) are secured on the investment properties and land and buildings of the Group with an aggregate carrying value of HK\$190,257,000 (March 31, 2006: HK\$83,503,000) and cash balance of HK\$3,620,000 (March 31, 2006: HK\$4,771,000) respectively.

### **14. RELATED PARTY TRANSACTION**

In August 2006, the Company entered into a warrant placing agreement with Mr. Chan Heng Fai, an executive director and Managing Chairman of the Company to subscribe for 172 million unlisted warrants at an issue price of HK\$0.03 per warrant, each entitles the holder to subscribe for one new share at the exercise price of HK\$0.17 per new share. The subscription was completed on October 16, 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The Group's turnover for the six months ended September 30, 2006 was HK\$307.9 million, compared to turnover of HK\$216.0 million for the same period in 2005, representing a 43% increase. Loss attributable to equity holders of the Company for the six months ended September 30, 2006 was HK\$16.8 million compared to HK\$12.4 million for the same period in 2005. The loss per share for the six months ended September 30, 2006 was HK1.01 cents compared to HK0.76 cents for the same period in 2005.

### **Financial and Securities Investment Division**

The division recorded a profit of HK\$11.0 million as compared to HK\$23.4 million for the same period in 2005.

### **Travel Agency Division**

During the period, the travel business recorded a turnover and operating profit of approximately HK\$294.5 million (2005: HK\$204.5 million) and HK\$2.3 million (2005: loss of HK\$2.4 million).

### **Credit Card Division**

During the period, positive external economic factors facilitated the steady recovery of the economy. Employment and consumer spending resumed growth as the business and investment environment continued to improve. The Group recovered bad debts of HK\$0.5 million and the Credit Card business recorded a turnover of approximately HK\$4.2 million, representing a decrease of 6% from the same period last year.

### **Health Care**

In December 2005, the Group disposed its entire interest in a subsidiary, Global Med Technologies, Inc. and ceased the operation of health care business.

## **Liquidity and Capital Resources**

During the period, the registered holders of 117,589,466 warrants exercised their rights to subscribe for ordinary shares. At the balance sheet date, the Company had outstanding 161,574,536 warrants. Exercise in full of such warrants would result in the issue of 161,574,536 additional shares of HK\$0.01 each.

As at September 30, 2006, the Group's current ratio was 5.6 (3.31.2006: 6.8) and had net cash of HK\$146.8 million (3.31.2006: HK\$260.3 million).

## **Material acquisitions, disposals and significant investments**

### *(a) Acquisition of properties*

During the period, the Group entered into a sale and purchase agreement to purchase a residential property located in Singapore at a consideration of S\$3,750,000 (HK\$18,375,000).

### *(b) Disposal of investment in Skywest*

During the period, the Group intends to sell its entire stake in Skywest Limited ("Skywest"). It has made an offer to Advent Air Limited ("Advent"), a UK listed company which indirectly holds approximately 60.34% of Skywest's total issued shares, to sell its shares in Skywest. Advent then announced that it intends, through its wholly owned subsidiary, to make an off-market offer for all the fully paid ordinary shares in Skywest. The disposal was completed in August 2006.

### *(c) Acquisition of a travel service company*

During the period, the Group entered into a sale and purchase agreement for the acquisition of the entire equity interest in Nihon Kotsu Travel Services Co., Ltd., a travel service company operating in Japan, at a consideration of Japanese Yen 135,000,000 (HK\$8,958,000).

### *(d) Acquisition of a hotel holding company*

During the period, the Group entered into a sale and purchase agreement for the acquisition of the shareholder's loan and the entire equity interest in Sapporo Holdings Y.K., a hotel holding company operating in Japan, at an aggregate consideration of Japanese Yen 550,000,000 (HK\$36,667,000).

### *(e) Disposal of a property*

During the period, the Group entered into an agreement for the disposal of a property located in Singapore at a consideration of S\$2,997,150 (HK\$14,836,000).

### *(f) Acquisition of properties*

During the period, the Group entered into agreements to purchase 19 units of investment properties located in Singapore at an aggregate consideration of S\$13,282,440 (HK\$65,748,000).

### *(g) Disposal of interior fit-out business of Futuristic Group Ltd ("Futuristic")*

The interior fit-out business was operated through Futuristic, the Group's Singapore listed associate, of which as at September 30, 2006, the Group held a 45.68% interest in.

During the period, Futuristic entered into a conditional agreement to sell its entire direct and indirect shareholding in the companies which conduct all its store fixtures and interior fit-out business, all the assets, rights and liabilities owed by Futuristic used in the conduct of the future store business for a consideration of US\$1,250,000. The transactions were completed in November 2006. Futuristic has developed its new travel businesses and is intend to leverage on its travel business and on the consumer finance expertise of its major shareholder, China Credit Holdings Limited to develop consumer finance and spending products such as credit cards and loyalty cards.

### **Foreign currencies and treasury policy**

Substantially all the revenues, expenses, assets and liabilities are denominated in Hong Kong dollars, U.S. dollars, Canadian dollars, Japanese Yen and Singapore dollars. Due to the currency peg of the Hong Kong dollars to the U.S. dollars, the exchange rate between these two currencies has remained stable and thus no hedging or other alternatives have been implemented by the Group. The Group expected that there is no significant exposure on foreign currency, but it cannot be assured operating results in future will not be materially affected.

### **Credit risk management**

The Group's credit policy defines the credit extension criteria, the credit approval and monitoring processes, and the loan provisioning policy. The Group maintains tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio and manage the credit risk exposure of the Group.

### **Human resources**

Remuneration packages are generally structured by reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. At the balance sheet date, there were approximately 220 employees employed by the Group. Share options may also be granted to eligible employees and persons of the Group.

### **Prospects**

We will continue our business strategy of focusing on the financial and securities investment businesses including but not limiting to securities trading, corporate finance, consumer finance and the credit card business. It is our intention to continue to expand our travel, leisure and hospitality businesses. The Board and management will continue to focus on the strategic development of the group through strategic partners and alliances, the development of our own brand names to achieve international recognition and achieving economies of scale for our existing businesses.

The market outlook is expected to be strong in the year ahead. Despite a competitive environment, the growth in consumer spending and borrowing, lower unemployment rates and changes in lifestyle will create a demand for consumer loans and an opportunity of growth for our leisure and hospitality businesses.

Looking ahead into the second half of the financial year, our ongoing efforts to enhance brand positioning are unremitting. As of October, 2006, the name of a subsidiary, Online Credit Card Limited has been changed to Xpress Finance Limited (“Xpress Finance”) to better represent our consumer finance business and Group’s direction. Our focus will continue to be on building and fortifying our brands of “Xpress Travel”, “Xpress Hospitality” and “Xpress Finance” and further strengthening consumers’ preference for them. This involves innovative marketing campaigns and opening of new branches to showcase the distinctiveness of the brands to create competitive advantage.

In this context, and subsequent to the period end date, the Group rolled out a large-scale marketing campaign and press conference on Xpress Finance and launched its i Xpress MasterCard (www.ixpresscard.com): the first fully customisable MasterCard in Hong Kong. This new and innovative credit card allows customers to design the whole card face and select their preferred interest/cash rebate combination, thus making it a totally personalised credit card.

The Group will continue in its direction to diversify its business risk through the expansion and development of its existing businesses in corporate finance, consumer finance, credit cards, and travel related activity outside of Hong Kong with a strong focus on Singapore, the PRC and Japan. The Group seeks to create synergies in the activities and businesses it currently has and will undertake in future. The Group’s strong cash position of over HK\$346 million as at September 30, 2006, together with the continued growth of our core businesses and prudent investment strategies, makes us highly competitive. We continue to the caption, “Seizing opportunities, delivering excellence”. To succeed, we strive to take advantage of new opportunities and develop new strengths and strategies to thrive in a different world.

Japan Xpress, in additional to Nikko Travel Service Co. Ltd’s (“Nikko”) existing business, will aggressively open travel stores nationwide in Tokyo, Osaka and other cities in the next 12 to 24 months. Nikko also plans to be the leading operator in outbound groups to Hong Kong, the PRC and Singapore in addition to its Korea destinations.

In line with our hospitality business development as a hotel segment, the Xpress Hotel Room division intends to aggressively acquire hotel properties in Japan and develop links between their businesses and our consumer finance, corporate finance, and consumer loyalty programs.

### **Capital commitments**

The Group had capital commitments of approximately HK\$59 million (3.31.2006: HK\$65 million) in respect of contracted but not provided for investment properties.

### **Contingent liabilities**

At the balance sheet date, contingent liabilities of the Group were as follows:

- (a) Guarantees of HK\$10.7 million (3.31.2006: HK\$10.7 million) given to financial institutions in respect of banking facilities granted to the Group’s suppliers.
- (b) Actions were brought by Pricerite Stores Limited and CASH Retail Management Group Limited respectively, against a subsidiary of the Company, in respect of the alleged breach of agreement for damages which are not quantified. In the opinion of the directors, it is not practicable at this stage to determine with certainty the outcome of the litigation.