THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult appropriate independent advisers to obtain independent professional advice.

If you have sold or transferred all your shares in REXCAPITAL Financial Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is solely for the purpose of providing shareholders with certain information in connection with a special general meeting of the Company and is not an offer to sell or solicitation of an offer to buy any securities

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

MAJOR TRANSACTION
CONNECTED TRANSACTION
AND
REFRESHMENT OF SHARE OPTION SCHEME MANDATE

Independent Financial Adviser

to the Independent Board Committee and the Independent Shareholders

FB GEMINI CAPITAL LIMITED

A letter from the board of the directors of REXCAPITAL Financial Holdings Limited is set out on pages 7 to 34 of this circular.

A notice dated 12 June 2006 convening the SGM to be held at 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong, on Thursday, 29 June 2006 at 4:30 p.m. is set out at the end of this circular. Whether or not you are able to attend the SGM, you are strongly urged to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of the Company in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in an event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

12 June 2006

CONTENTS

Pages

Definitions 1

Letter from the Board

1. Introduction 7
2. The Share Purchase Agreement 9
3. Capital Contribution Contract 13
4. Information on Sinodata Group 14
5. Reasons for and Benefits of the Acquisition 23
6. Financial and Trading Prospect of the Enlarged Group 23
7. Working Capital 24
8. Indebtedness 25
9. The Connected Transaction 25
10. Reasons for and Benefits of the Subscription 29
11. Effects on Shareholding Structure 29
12. Application for Listing 31
13. Listing Rules Implications 31
14. Refreshment of the Share Option Scheme Mandate 31
15. Special General Meeting 33
16. Procedures by which Shareholders may Demand a Poll at the Special General Meeting 33
17. Recommendations 34
18. Additional Information 34

Letter from the Independent Board Committee 35

Letter from FB Gemini 36

Appendices

Appendix I Financial Information of the Sinodata Group 54
Appendix II Financial Information of the Company and its Subsidiaries 102
Appendix III Additional Financial Information of the Enlarged Group 159
Appendix IV General Information 168

Notice of Special General Meeting 175

DEFINITIONS

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

"1st Tranche Subscription Shares"	the 600,000,000 Shares subscribed by the Subscriber on the 1st Tranche Completion Date
"1st Tranche Completion Date"	the Business Day immediately after the date upon which the last of the Conditions was satisfied being 4 April 2006
"2nd Tranche Subscription Shares"	the 600,000,000 Shares to be subscribed by the Subscriber on the 2nd Tranche Completion Date
"2nd Tranche Completion Date"	the second Business Day after all the Conditions and Additional Conditions shall have been satisfied (or such other date as the Parties may agree in writing)
"A Share Transfer Contract"	the share transfer contract entered into between an Independent Third Party as the vendor and CITIC Media as the purchaser on 23 February 2006 in relation to the sale and purchase of 21.12% in the registered capital of Sinodata before completion of the transaction under the Capital Contribution Contract
"Acquisition"	the proposed acquisition of the entire issued share capital of Multi Glory by the Purchaser from the Vendor pursuant to the Share Purchase Agreement
"Additional Conditions"	the additional conditions to the completion of the subscription of the 2nd Tranche Subscription Shares
"associates"	has the meaning ascribed to it under the Listing Rules
"B Share Transfer Contract"	the share transfer contract entered into between an Independent Third Party as the vendor and CITIC Media as the purchaser on 23 February 2006 in relation to the sale and purchase of 19.316% in the registered capital of Sinodata before completion of the Capital Contribution
"Board"	the board of Directors
"Business Day"	any day (excluding a Saturday) on which banks generally open for business in Hong Kong

"C Share Transfer Contract"	the share transfer contract entered into between an Independent Third Party as the vendor and CITIC Media as the purchaser on 23 February 2006 in relation to the sale and purchase of 5% in the registered capital of Sinodata before completion of the Capital Contribution
"Capital Contribution Contract"	the capital contribution contract entered into between 4 Independent Third Parties and CITIC Media on 23 February 2006 pursuant to which CITIC Media or its nominated subsidiary has agreed to contribute RMB30,000,000 into the capital of Sinodata, details of which are set out in the section headed "Capital Contribution Contract" of this circular
"Capital Contribution"	the proposed contribution of RMB30,000,000 into the capital of Sinodata by CITIC Media or its nominated subsidiary pursuant to the Capital Contribution Contract
"Company"	REXCAPITAL Financial Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Date"	the third business day immediately following the day on which all of the conditions in the Share Purchase Agreement are satisfied or waived, or such later date as may be mutually agreed by the parties in writing
"Conditions"	the conditions to the completion of the Subscription of the 1st Tranche Subscription Shares
"connected persons"	has the meaning as defined in the Listing Rules
"Connected Transaction"	the subscription for the 2nd Tranche Subscription Shares
"Consideration Share(s)"	500,000,000 new Shares to be issued at a price of HK$0.15 per Share for settlement of the consideration of HK$75,000,000 payable by the Purchaser to the Vendor (or its nominee) under the Share Purchase Agreement
"CITIC Media"	中信文化傳媒集團有限公司(CITIC Media Group Limited), an enterprise established in the PRC

"CITIC Media HK"	CITIC Media (Hong Kong) Limited (中信文化傳媒(香港)投資有限公司), a company incorporated in the British Virgin Islands
"Director(s)"	director(s) including independent non-executive director(s) of the Company
"Enlarged Group"	the Group after completion of the Acquisition
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising Mr. Yuen Wai Ho, Mr. On Kien Quoc, and Mr. Chow Siu Ngor, the independent non-executive Directors, established for the purpose of reviewing and advising the Independent Shareholders in respect of the Connected Transaction
"Independent Financial Adviser" or "FB Gemini"	FB Gemini Capital Limited
"Independent Shareholder(s)"	the shareholders of the Company other than Kingly Profits Corporation and its associates
"Independent Third Party(ies)"	person(s) or company(ies) together with its/their beneficial owner(s) who or which is/are, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, are not connected person(s) (as defined in the Listing Rules) to the Company
"Latest Practicable Date"	7 June 2006, being the latest practicable date prior to the printing of this circular for the purpose of containing certain information contained in this circular
"Listing Committee"	the listing sub-committee of the board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Multi Glory"	Multi Glory Limited, a company incorporated in the British Virgin Islands with limited liability and will indirectly hold 90% interest in Shenzhen JV upon Completion

"Multi Glory Group"	Multi Glory and its subsidiaries and Sinodata and its subsidiaries
"Options"	the options granted under the Share Option Scheme to subscribe for Share in accordance with the terms of the Share Option Scheme
"Percentage Rate"	the percentage rate of lottery sales to be shared by Sinodata
"Placing"	the placing of the Placing Shares by the Placing Agent on behalf of the Placing Vendor
"Placing Completion"	completion of the Placing pursuant to the Placing Agreement
"Placees"	the professional, institutional and other investors selected and procured by or on behalf of the Placing Agent as contemplated by the Placing Agreement
"Placing Agent"	Bear Stearns Asia Limited
"Placing Agreement"	the professional, institutional and other investors selected and procured by or on behalf of the Placing Agent as contemplated by the Placing Agreement
"Placing Shares"	the 1,200,000,000 Shares placed by the Placing Vendor
"Placing Vendor"	Kingly Profits Corporation, being the vendor to the Placing Agreement
"PRC"	People's Republic of China
"Purchaser"	REXCAPITAL Financial Group Limited, a wholly-owned subsidiary of the Company
"Scheme Mandate Limit"	the maximum number of Shares which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company which initially shall not in aggregate exceed 10% of the Shares in issue as at the date of adoption of the Share Option Scheme and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit by the Shareholders

"SFC"	the Securities and Futures Commission
"SGM" or "Special General Meeting"	the special general meeting of the Shareholders to be convened by the Company to consider and approve the matters contained in this Circular
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 22 November 2002
"Share Purchase Agreement"	the conditional share sale and purchase agreement dated 15 March 2006, as amended by the Supplemental Agreement, entered into between the Purchaser, the Company and the Vendor in relation to the Acquisition
"Share Transfer"	the transfer of an aggregate of 45.436% in the registered capital of Sinodata prior to completion of the Capital Contribution to CITIC Media or its nominated subsidiary pursuant to the Share Transfer Contracts, the completion Share Transfer is a condition precedent to Completion
"Share Transfer Contracts"	the A Share Transfer Contract, the B Share Transfer Contract and the C Share Transfer Contract
"Shareholder(s)"	holders of the Shares
"Shenzhen JV"	深圳樂彩科技有限公司(Shenzhen Le Cai Technology Limited), a Sino-foreign equity joint venture established in the PRC with a registered capital of RMB10 million and to be indirectly owned as to 90% by the Company upon completion of the Acquisition
"Sinodata"	深圳市思樂數據技術有限公司(Shenzhen Sinodata Technology Co., Ltd.), a limited liability company established in the PRC and to be owned as to 50.9% by Shenzhen JV upon completion of the Share Transfer and the Capital Contribution
"Sinodata Group"	Sinodata and its subsidiaries

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Kingly Profits Corporation, being the subscriber to the Subscription Agreement
"Subscription"	the subscription of the Subscription Shares at the Subscription Price
"Subscription Agreement"	the subscription agreement dated as of 23 March 2006 entered into between the Subscriber and the Company in relation to the Subscription
"Subscription Price"	HK$0.20 per Subscription Share
"Subscription Shares"	the 1st Tranche Subscription Shares and the 2nd Tranche Subscription Shares
"Supplemental Agreement"	the supplemental agreement to the Share Purchase Agreement dated 20 March 2006 entered into between the Purchaser, the Company and the Vendor to amend certain terms of the Share Purchase Agreement
"Takeovers Code"	The Code on Takeovers and Mergers Hong Kong
"Vendor"	Magic Dynasty Limited, a company incorporated in the British Virgin Islands and an Independent Third Party
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

In this circular, unless otherwise stated, conversion of RMB into HK$ is based on the exchange rate of HK$1 = RMB1.04, for the purpose of illustration only, and do not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at this or any other rate.

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

Executive Directors:
Chan How Chung, Victor
Lee Huei Lin
Boo Chun Lon

Independent non-executive Directors:
Yuen Wai Ho
On Kien Quoc
Chow Siu Ngor

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
Suite 3401, 34/F
COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

12 June 2006

To the Shareholders and, for information only, the holders of the options of the Company

Dear Sir or Madam,

MAJOR TRANSACTION
CONNECTED TRANSACTION
AND
REFRESHMENT OF SHARE OPTION SCHEME MANDATE

1. INTRODUCTION

As announced by the Company on 15 March 2006, the Purchaser (which is a wholly-owned subsidiary of the Company), the Company and the Vendor entered into the Share Purchase Agreement under which, among other matters, the Purchaser has agreed to acquire and the Vendor has agreed to sell the entire issued share capital of Multi Glory. Sinodata, a subsidiary of Multi Glory upon the completion of the Share Transfer and Capital Contribution, is involved in the development and production of proprietary lottery machines, related operating software system and networks (including the provision of incidental consultancy services) for welfare lottery industry in China.

The proposed Acquisition pursuant to the Share Purchase Agreement and the proposed Capital Contribution pursuant to the Capital Contribution Contract constitute a major transaction for the Company pursuant to Chapter 14 of the Listing Rules and are, thus, subject to the approval of the Shareholders.

Further, as announced by the Company on 23 March 2006, the Company, the Placing Agent and the Placing Vendor entered into the Placing Agreement, pursuant to which the Placing Agent agreed to place, on a best efforts basis, up to an aggregate of 1,200,000,000 existing Shares at a price of HK$0.20 per Share on behalf of the Placing Vendor. On the same day, the Company entered into the Subscription Agreement with the Placing Vendor for the subscription of up to an aggregate of 1,200,000,000 new Shares at the same price per Share.

The Placing has now been completed, and 1,200,000,000 existing Shares were placed accordingly. The Placing Shares represent 40% of the original issued share capital of the Company and approximately 28.57% of the issued share capital as will be enlarged by the Subscription. Pursuant to the Subscription Agreement, the Placing Vendor has conditionally agreed to subscribe for the Subscription Shares which is equivalent to the number of Placing Shares comprising the 1st Tranche Subscription Shares and the 2nd Tranche Subscription Shares on the 1st Tranche Completion Date and the 2nd Tranche Completion Date respectively. On 4 April 2006, the 1st Tranche Subscription Shares were allotted and issued when the Conditions were satisfied.

As the subscription for the 2nd Tranche Subscription Shares constitutes a connected transaction of the Company under Rule 14A.10(13)(g) of the Listing Rules and as the exemptions provided under Chapter 14A of the Listing Rules do not apply to such subscription, it is therefore subject to the reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board also proposes that the Scheme Mandate Limit be refreshed to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company, shall not exceed 10% of the Shares in issue as at the date of approval of the relevant resolution by the Shareholders at the SGM.

The purpose of this circular is to provide you with details of (i) the terms of the Acquisition; (ii) the Connected Transaction; (iii) the share option scheme mandate; and (iv) a notice to the Shareholders convening the Special General Meeting to approve the Share Purchase Agreement, the issue of the Consideration Shares, the Connected Transaction and the refreshment of the Scheme Mandate Limit.

2. THE SHARE PURCHASE AGREEMENT

Date

15 March 2006 (the Supplemental Agreement was entered into on 20 March 2006)

Parties

The Company: REXCAPITAL Financial Holdings Limited, as the issuer of the Consideration Shares

The Purchaser: REXCAPITAL Financial Group Limited, a wholly-owned subsidiary of the Company

The Vendor: Magic Dynasty Limited, the beneficial owner of the entire issued share capital of Multi Glory

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owner is an Independent Third Party.

Conditions Precedent

Completion of the Share Purchase Agreement is conditional upon fulfillment or waiver (by the Purchaser), as the case may be, of the following conditions:

(i) the warranties remaining true and accurate and not misleading from the date of the Share Purchase Agreement to the Completion Date inclusive;

(ii) the Purchaser being satisfied with the result of due diligence conducted on financial, legal, contractual, taxation, trading positions and title to assets of the Sinodata Group;

(iii) the Vendor having complied fully with the pre-completion obligations and having performed all of the covenants and agreements required to be performed by it under the Share Purchase Agreement on or prior to the Completion Date;

(iv) all necessary consents required to be given by third parties to the Vendor for the transactions contemplated under the Share Purchase Agreement having been granted and being in full force and effect;

(v) no pending or threatening litigation which would restrain, prohibit, impose limitations or conditions or otherwise challenge the transactions contemplated by the Share Purchase Agreement;

(vi) the due establishment of Shenzhen JV, with CITIC Media HK being beneficially interested in 90% of its registered capital, in accordance with the applicable laws in the PRC and the paying up of the required registered capital;

(vii) the completion of the Share Transfer to the satisfaction of the Purchaser;

(viii) the receipt by the Purchaser of a legal opinion by a firm of qualified lawyers in the PRC in such form and substance satisfactory to the Purchaser;

(ix) during the period from the date of the Share Purchase Agreement to the Completion Date, there not having occurred any material adverse effect on the financial position and operating performance of the Sinodata Group as a whole;

(x) the passing of an ordinary resolution by the Shareholders at a special general meeting of the Company or the execution of a written approval by Kingly Profits Corporation pursuant to Rule 14.44 of the Listing Rules to approve and/or ratify the Share Purchase Agreement, the Capital Contribution Contract and the transactions contemplated therein;

(xi) the Listing Committee granting listing of, and permission to deal, in the Consideration Shares; and

(xii) if so required, the Bermuda Monetary Authority shall have approved the issue of the Consideration Shares pursuant to the Share Purchase Agreement.

The Purchaser may in its absolute discretion at any time waive in writing any of the conditions set out in paragraphs (i) to (xii) above (or any part thereof) and such waiver may be made subject to such terms and conditions as are determined by the Purchaser. The Purchaser shall not be entitled to exercise such right of waiver in respect of paragraphs (x), (xi) and (xii) above if as a result of such waiver the Purchaser would be in breach of the Listing Rules, the rules or regulations of any relevant governmental, statutory or regulatory authority or agency, or any other person or body, in Hong Kong or Bermuda.

As at the Latest Practicable Date, the conditions set out in paragraphs (vi), (vii) and (xii) have been satisfied. The joint venture agreements and articles of association of Shenzhen JV were entered into by CITIC Media HK and CITIC Media on 6 March 2006 and the Shenzhen JV was established under the name of "深圳樂彩科技有限公司 (Shenzhen Le Cai Technology Limited)". The Share Transfer was completed on 9 May 2006.

If any of the above conditions has not been fully fulfilled or satisfied or complied with or waived by 15 July 2006 (or such later date as may be agreed in writing between the Vendor and the Purchaser), the Purchaser shall not be bound to proceed with the purchase of the entire issued share capital of Multi Glory and the Share Purchase Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach of the Share Purchase Agreement.

Consideration

The aggregate consideration for the Acquisition is HK$227,880,000. The consideration is payable by the Purchaser in the following manner:

(i) at Completion, an aggregate amount equal to HK$152,880,000 shall be paid by way of cash; and

(ii) at Completion, by way of the Company issuing and allotting to the Vendor (or its nominee as it may designate) 500,000,000 new Shares at a price of HK$0.15 per Consideration Share.

The consideration has been agreed by the parties after arm's length negotiation. In arriving at the consideration, the Directors have considered factors including the prospects of Sinodata Group taking into account, among other information, the leading position of Sinodata in the machine and system supply section to the welfare lottery business in China and the business opportunities in the growing welfare lottery market in China.

The consideration as to HK$152,880,000 shall be paid in cash and financed by the proceeds raised from the Placing and Subscription.

The Consideration Shares represent approximately 16.67% of the issued share capital of the Company as at 15 March 2006 and will represent about 14.29% of the enlarged issued share capital of the Company upon the issue and allotment of the Consideration Shares upon completion of the Share Purchase Agreement and assuming that the Subscription has not been completed. The issue price of HK$0.15 per Consideration Share represents:

(i) a discount of approximately 5.66% to the closing price of HK$0.159 per Share as quoted on the Stock Exchange on 15 March 2006;

(ii) a discount of approximately 1.83% to the average closing price of HK$0.1528 per Share for the last five consecutive trading days up to and including 15 March 2006;

(iii) a premium of approximately 11.28% to the average closing price of HK$0.1348 per Share for the last ten consecutive trading days up to and including 15 March 2006;

(iv) a premium of approximately 1.84 times over the audited consolidated net tangible assets of the Group of HK$0.053 per Share as at 31 December 2004;

(v) a premium of approximately 2.95 times over the audited consolidated net tangible assets of the Group of HK$0.038 per Share as at 31 December 2005; and

(vi) a discount of approximately 50% to the closing price of HK$0.3 per share as quoted on the Stock Exchange on the Latest Practicable Date.

The Vendor has undertaken to the Company and the Purchaser that during the period commencing from the Completion Date and ending on the date which is six months after the Completion Date, it shall not, inter alia, offer, pledge, charge, sell, contract to sell or otherwise transfer or dispose of, either directly or indirectly, any of the Consideration Shares.

The Consideration Shares will be issued pursuant to the Shareholders' approval to be sought by the Company at the Special General Meeting. Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in the Consideration Shares.

The issue price of the Consideration Shares was determined after arm's length negotiations between the Company and the Vendor. The Board considers that the terms of the Share Purchase Agreement, including the issue price of the Consideration Shares, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Completion

Completion of the Share Purchase Agreement shall take place on the third business day immediately following the day on which all of the above conditions are satisfied or waived, or such later date as may be mutually agreed by the parties in writing.

As at the Latest Practicable Date, there is no agreement between the Company and the Vendor as to whether the Vendor will nominate any person to the Board upon Completion.

3. CAPITAL CONTRIBUTION CONTRACT

The completion of the Capital Contribution Contract, to which Shenzhen JV is a party, is expected to take place after Completion. After Completion, Shenzhen JV, will become a subsidiary of the Company and as such, the obligations of Shenzhen JV under the Capital Contribution Contract, will in effect become the obligations of the Group. Details of the Capital Contribution Contract are as follows:

Date

23 February 2006

Parties

CITIC Media and 4 Independent Third Parties

Major Terms of the Capital Contribution Contract

Pursuant to the Capital Contribution Contract, CITIC Media has agreed to procure one of its subsidiaries to contribute RMB30,000,000 into the registered capital and reserves of Sinodata. On 9 March 2006, CITIC Media has nominated one of its indirect subsidiaries, Shenzhen JV, to take up all its rights and obligations under the Capital Contribution Contract.

Upon completion of the Capital Contribution, Shenzhen JV's interest in the registered capital of Sinodata will be enlarged from 45.436% to 50.9%.

Conditions

The Capital Contribution Contract shall become effective upon the satisfaction of the following conditions:

(i) the completion of internal approval by each party with respect to the Capital Contribution;

(ii) approval by the shareholders of Sinodata with respect to the Capital Contribution; and

(iii) immediately before completion of the Capital Contribution, the registered capital of Sinodata being owned as to 45.436% by Shenzhen JV and 54.564% by 4 Independent Third Parties.

Consideration

RMB30,000,000 to be paid in cash by Shenzhen JV into the capital of Sinodata. 90% of such consideration (RMB27,000,000) is to be contributed by the Group and 10% of such consideration (RMB3,000,000) is to be contributed by CITIC Media into Shenzhen JV in proportion to their respective equity interest in Shenzhen JV.

The consideration of RMB27,000,000 under the Capital Contribution Contract shall be financed by the Group's internal resources and/or borrowings from financial institutions or by way of new equity.

Completion

Completion of the Capital Contribution Contract shall take place on the fifth business day immediately following the day on which the Capital Contribution Contract becomes effective.

4. INFORMATION ON SINODATA GROUP

Multi Glory

Multi Glory is an investment holding company established in the British Virgin Islands with limited liability. It has no business activity save for being beneficially interested in the entire issued share capital of CITIC Media HK, which in turn is interested in 90% of the registered capital of Shenzhen JV. On 9 March 2006, CITIC Media nominated Shenzhen JV to take up all its rights and obligations under the Share Transfer Contracts and the Capital Contribution Contract. Upon completion of the Share Transfer, Shenzhen JV will be interested in 45.436% of the registered capital of Sinodata and upon completion of the Capital Contribution, its interest in Sinodata will be increased to 50.9%.

Shenzhen JV

Shenzhen JV is a sino-foreign equity joint venture established in the PRC on 13 March 2006 between CITIC Media and CITIC Media HK. Each of CITIC Media and CITIC Media HK is obliged to contribute 10% and 90% into the registered capital of Shenzhen JV respectively. Upon completion of the Share Transfer and the Capital Contribution, Shenzhen JV will be interested in 50.9% of the registered capital of Sinodata.

Sinodata

Sinodata is a limited liability company established in the PRC in March 1998 with a registered capital of RMB32,000,000. The principal business of Sinodata is in the development and production of proprietary lottery machines, related operation software system and networks (including the provision of incidental consultancy services) for the welfare lottery industry in the PRC. Sinodata has obtained the necessary licenses, which include the business license, in relation to the operation of its business. Apart from such licenses, the selling of such lottery machines, related operation software system and networks by Sinodata does not require the obtaining of any license or authorization from the relevant authority in the PRC.

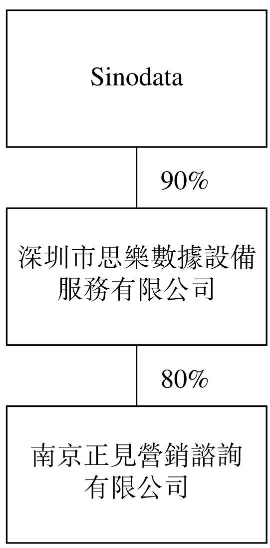
According to the PRC legal advisers of the Company, the licensing of lottery is the responsibility of the State Council according to the "Preliminary Regulations on the Licensing and Sales Administration of Lotteries"《彩票發行與銷售管理暫行辦法》. There are no existing laws and regulations that govern the development, production and sales of lottery machines and the provision of technical services and facilities to lottery businesses in the PRC.

Sinodata has its headquarters in Shenzhen and its main business is the deployment of welfare lottery system in the PRC including the supply of machines and maintenance of the network. Its lottery systems are used for Computer Ticket Games ("CTGs") in welfare lottery, i.e. Power Ball, 3D, etc. CTGs accounted for over 97% of the PRC's welfare lottery revenue in 2005.

Sinodata has been in operation for over 7 years with growing track records. The consolidated net profit after taxation of Sinodata and its subsidiary has grown from RMB11.3 million to RMB20.8 million between 2003 and 2005, representing approximately 84% growth during such period. Sinodata also has extensive geographical coverage in the PRC. Currently, it has over 36,000 lottery machines located in 13 provinces in the PRC. Sinodata is the single largest computer ticket lottery machine provider in the PRC, accounting for approximately 40% of the total welfare lottery market in the PRC in terms of geographical coverage, number of machines deployed and welfare lottery revenue generated in the provinces covered.

Sinodata is operating on a revenue model based on the selling of proprietary lottery machines, related operation software system and networks (including the consultancy fees derived from provision of incidental consultancy services and maintenance fees derived from providing maintenance services to its customers) and sharing certain percentage of lottery sales from its customers. The Percentage Rate with respect to each customer has been negotiated on the basis of the actual commercial circumstances of the particular customer, e.g. the urgency of deployment of machinery, directive from the Central Government, the design of the whole networking system to be deployed for that customer and the market potential. The time period for which Sinodata can share the lottery sales is the contract period which is subject to negotiation between Sinodata and each customer. As such, the rate and time period for each customer may vary accordingly on a case by case basis. The amount of revenue arising from the sharing of lottery sales from its customers in 2004 and 2005 has been disclosed in Appendix I of the circular. The customers of Sinodata are authorized operators mainly, local lotteries issuance centers of welfare lottery in the PRC.

The group structure of Sinodata and its subsidiaries is as follows:



Welfare Lottery Business in the PRC

The lottery market in the PRC can be broadly classified into two categories, welfare lottery and sports lottery:

Sports Lottery

Sports lottery is administered by China Sport Lottery Administration Center, which roughly accounted for 42% market share in the PRC lottery market in 2005. Sinodata did not participate in this lottery market.

Welfare Lottery

Welfare lottery commenced operation in 1987 which accounted for about 58% market share in the PRC lottery market in 2005. It provides an alternative revenue source for the welfare activities in the PRC.

At present, games covered by welfare lottery can broadly be divided into:–

- Computer Ticket Games ("**CTGs**");
- Instant Lottery Games or Scratch Cards ("**SCs**"); and
- On-line Games (including Video Lottery Terminals ("**VLT**") and Keno ("**VLT/Keno**")).

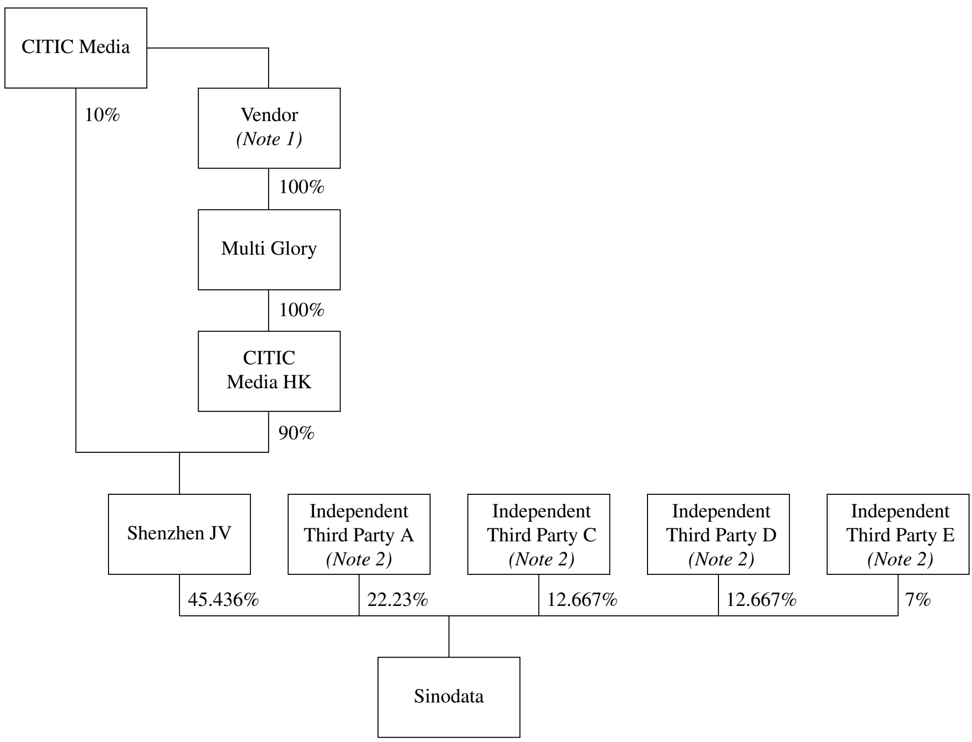
CTGs are the pre-dominant revenue contributor to welfare lottery revenue, and accounted for over 97% (or over RMB40 Billion) of welfare lottery in the PRC revenue in 2005. VLT/Keno and SCs together accounted for less than 3% of the welfare lottery revenue in 2005.

The product and services offered by Sinodata included the production and sale of lottery machines, related operating software system and networks systems which are used for CTGs in welfare lottery.

Shareholding Structure of Sinodata

As the Share Transfer was completed on 9 May 2006, the registered capital of Sinodata was owned as to 45.436% by Shenzhen JV and 54.564% by 4 Independent Third Parties as at the Latest Practicable Date.

The following is the shareholding structure of the Sinodata Group as at the Latest Practicable Date:



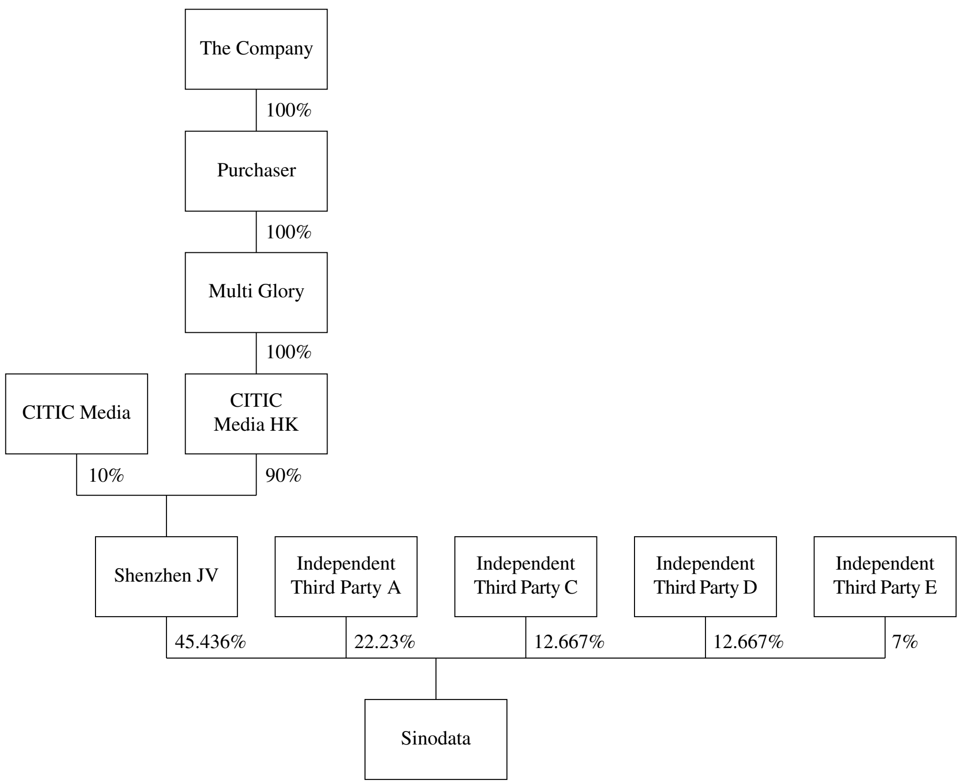
Notes:

1. The Vendor is an indirect wholly-owned subsidiary of CITIC Media.

2. Independent Third Party A is a PRC corporate investor.
   Independent Third Party C, D and E are individual investors who are PRC residents.

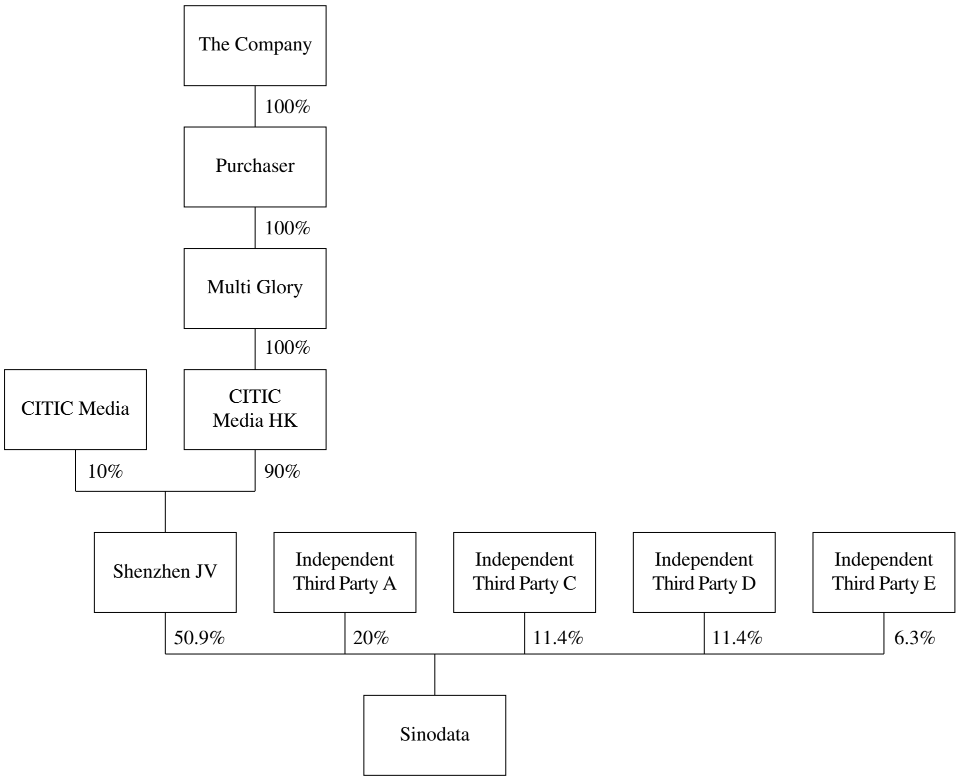
Upon completion of the Acquisition, the Purchaser will legally and beneficially hold the entire issued share capital of Multi Glory and CITIC Media HK and, through CITIC Media HK, will legally and beneficially hold 90% interest in the registered capital of Shenzhen JV and, through Shenzhen JV, will legally and beneficially hold 45.436% interest in the registered capital of Sinodata.

The following is the shareholding structure of Multi Glory Group as at the completion of the Acquisition:



Upon completion of the Acquisition and the Capital Contribution, the registered capital of Sinodata will be owned as to 50.9% by Shenzhen JV and 49.1% by 4 Independent Third Parties.

The following is the shareholding structure of the Multi Glory Group as at the completion of the Acquisition and the Capital Contribution:



According to the Financial Information of Sinodata Group in Appendix I, the total consolidated audited asset value of Sinodata and its subsidiaries as at 31 December 2005, 31 December 2004 and 31 December 2003 was approximately RMB132.5 millions (equivalent to approximately HK$127.4 million), RMB129 million (equivalent to approximately HK$124 million) and RMB113.6 million (equivalent to approximately HK$109.2) respectively.

The total consolidated audited net asset value of Sinodata and its subsidiaries as at 31 December 2005, 31 December 2004 and 31 December 2003 was approximately RMB120.7 million (equivalent to approximately HK$116.1 million), RMB109.9 million (equivalent to approximately HK$105.7 million) and RMB106.1 million (equivalent to HK$102 million) respectively.

The audited consolidated net profits of Sinodata and its subsidiaries before and after minority interests for the year ended 31 December 2005 was approximately RMB20.8 million (equivalent to approximately HK$20 million) and RMB19.7 million (equivalent to approximately HK$18.9 million). The audited consolidated net profits of Sinodata and its subsidiaries before and after minority interests for the year ended 31 December 2004 was approximately RMB15.6 million (equivalent to approximately HK$15 million) and RMB14.1 million (equivalent to approximately HK$13.6 million) respectively. The audited consolidated net profits of Sinodata and its subsidiaries before and after minority interests for the year ended 31 December 2003 was approximately RMB11.3 million (equivalent to approximately HK$10.9 million) and RMB11.3 million (equivalent to approximately HK$10.9) respectively.

As each of Multi Glory, CITIC Media HK and Shenzhen JV has not yet commenced any business as at the Latest Practicable Date, information relating to their respective turnovers and profits are not available. Upon completion of the Acquisition and the Capital Contribution, the consolidated financial results of Sinodata Group will be consolidated in the consolidated accounts of the Group. The Purchaser and CITIC Media, being the shareholders of Shenzhen JV, will decide from time to time whether additional capital may be required in the future for the development of Shenzhen JV's, Sinodata's and its subsidiaries' businesses. In such circumstances, the Company may finance its funding requirement either by equity or debt including, but not limited to, shareholders' loans and/or bank borrowings. If such additional capital is required from the Company for Shenzhen JV, the Company will make further announcement in compliance with the Listing Rules.

Under the contemplated shareholding structure of Multi Glory Group, upon Completion, Shenzhen JV will be entitled to nominate and appoint the members of the board of directors Sinodata in proportion to its shareholding in Sinodata. As the Company will be interested in 90% of the registered capital of Shenzhen JV, it is expected that the Company will be entitled to exercise its power as a controlling shareholder in the board of directors of Sinodata. The Company will be entitled to nominate and appoint the majority of the members of the board of directors in Multi Glory, CITIC Media HK and Shenzhen JV The exact number of directors to be appointed in each of such companies has not yet been decided. It is still under negotiation as to whether CITIC Media will be entitled to appoint any member to the board of directors of Shenzhen JV.

Management discussion and analysis of Sinodata Group

Based on the audited accountant's report of Sinodata Group as set out in Appendix I to this circular, the turnover of Sinodata Group for each of the three years ended 31 December 2005, 31 December 2004 and 31 December 2003 ("Relevant Periods") was approximately RMB77.6 million, RMB58.4 million and RMB33.2 million respectively. The net profits before taxation of Sinodata Group during each of the Relevant Periods was approximately RMB21.4 million, RMB15.8 million and RMB11.9 million respectively. The movement of the net profits of Sinodata Group during the Relevant Periods were mainly attributable to the increase in demand of lottery machines and related service incomes The net asset value of Sinodata Group was approximately RMB120.7 million as at 31 December 2005.

The turnover of the Sinodata Group comprised (i) income generated from sales of lottery machines, related operation software system and networks and other equipment; (ii) sales income generated from sharing certain percentage of lottery sales from customers; and (iii) consultancy services, maintenance fees, IT support and development fee incomes. During each of the Relevant Periods, income generated from sales of lottery machines, related operation software system and networks and other equipment amounted to approximately RMB44.4 million, RMB24 million and RMB15.9 million respectively which represented an increase of 179% from 2003 to 2005. Overall turnover increase was mainly due to the contribution from sales of lottery machines which increased by 116% to RMB39.1 million and 196% to RMB18.1 million for the years ended 31 December 2005 and 31 December 2004 respectively. However, the increase was partially offset by the decrease in sales of other equipment in 2004 and 2005 which represented the sales of other computer equipment as the Sinodata Group concentrated on its principal business - sales of lottery machines and application software. Sales income generated from sharing certain percentage of lottery sales during each of the Relevant Periods became more significant and amounted to approximately RMB16.6 million, RMB10 million and RMB0.8 million respectively. This resulted in an overall increase in income for the year ended 31 December 2005 as compared to the years ended 31 December 2004 and 31 December 2003. During each of the Relevant Periods, consultancy services, maintenance fees and IT support and development fee incomes amounted to approximately RMB16.6 million, RMB24.4 million and RMB16.5 million respectively. The slight drop in maintenance service fee in 2005 was RMB15.9 million (compared to 2004 which was RMB18.8 million) was mainly due to a new model of lottery machines launched at the end of 2004. The increase in IT support and development fees for the year ended 31 December 2004 was mainly due to income generated from a one off special IT software development project received from a related company which is disclosed in note 30 headed "Balances and transactions with related parties" in Appendix I to this circular.

As at 31 December 2005, 31 December 2004 and 31 December 2003, Sinodata Group had cash reserves of approximately RMB15.5 million, RMB10.9 million and RMB23.9 million respectively. Most of the cash reserves were placed in major banks in the PRC.

Sinodata Group did not have any bank borrowings as at 31 December 2005, 31 December 2004 and 31 December 2003. Sinodata Group mainly used its internally generated cash flow to fund its operations.

The auditors of Sinodata Group have mentioned in the accountant's report that there are two subsidiaries, 杭州思樂禾源數碼技術有限公司 ("杭州思樂") and 北京思樂信息技術有限公司 ("北京思樂"), which were disposed of during the Relevant Periods. Their financial information were therefore not incorporated in the accountant's report. All the financial statements relating to these two subsidiaries had been taken away by their respective purchasers. As a result, Sinodata Group's management was not able to gather sufficient financial information relating to these two subsidiaries. Both of the subsidiaries operated in separate lines of business which were different from the remaining companies of Sinodata Group. In addition, since there are no significant transactions between each of 杭州思樂 and 北京思樂 and the other companies of the Sinodata Group during the Relevant Periods, the Directors are of the view that the non-inclusion of such financial information do not have any material adverse impact on the subject matter of the Acquisition, nor would they affect the fairness and reasonableness of the considerations for the Acquisition and would not make the accountants report of Sinodata Group misleading.

As at the Latest Practicable Date, the Share Transfer was completed and the registered capital of Sinodata is owned as to 45.436% by Shenzhen JV and 54.564% by 4 Independent Third Parties. Upon completion of the Acquisition and the Capital Contribution, Shenzhen JV's interest in the registered capital of Sinodata will be enlarged from 45.436% to 50.9% and Sinodata Group will be effectively beneficially owned as to 45.81% by the Company.

Sinodata Group has about 120 employees in the PRC and the total staff cost (including directors' remuneration) during each of the three years ended 31 December 2005, 31 December 2004 and 31 December 2003 was approximately RMB9.9 million, RMB9.1 million and RMB8.3 million respectively. The revenues and expenses of Sinodata Group are mainly denominated in RMB. Accordingly, Sinodata Group does not have material exposure to fluctuations in exchange rate.

5. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of financial services including broking, securities margin financing, money lending, investment trading and holding, corporate finance and asset management.

The Company has been proactively identifying suitable investment opportunities to enhance the Group's revenue base and profitability. The Directors are of the view that its proposed investment in Sinodata through Multi Glory will provide an exciting opportunity for the Group to diversify its business into the machines and system supply section of the welfare lottery market in the PRC. The revenue generated by welfare lottery in the PRC has increased from RMB22.6 billion in 2004 to RMB41 billion in 2005 (an increase of approximately 80%). Through the Acquisition and the Capital Contribution, and given that Sinodata is one of the leaders in the supply of machine and system section in the welfare lottery business in the PRC with it accounting for approximately 40% of the total welfare lottery market in the PRC in terms of geographical coverage, number of machines deployed and welfare lottery revenue in the provinces covered, the Directors believe that the Group's recurrent income base could be strengthened which would have a positive impact on the Group's long term profitability. In addition, the shareholders base of the Company could be further broadened.

The Directors believe that the terms of the Share Purchase Agreement and the Capital Contribution Contract are fair and reasonable and in the interests of the shareholders as a whole.

6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Immediately following completion of the Acquisition, there will not be any change in control or the principal business activities of the Company. In view of the rapid economic growth in the PRC economy in the recent decade, the PRC welfare lottery market exhibited a solid growth potential. Although the Sinodata Group involves in the machines and system supply section of the PRC welfare lottery market, it does not involve in the sales of the welfare lottery activities. The Directors are of the view that the Acquisition, if implemented, will diversify the Group's existing business and also a chance for the Company to enter into the welfare lottery market in the PRC. The Company is particularly optimistic about the prospects of machines and system supply section of the welfare lottery market in the PRC.

Going forward, upon completion of the Acquisitions, the turnover of the Group will comprise income generated not only from the provision of financial services that included broking and securities margin financing, investment trading and holding and money lending. In addition, the Group will also receive revenue from the sales of proprietary lottery machines and related services through the Sinodata Group. The Directors consider that the Acquisitions would contribute positively to the turnover and results of the Group in the near future.

The current Board does not have expertise in the management of the business conducted by the Sinodata Group. Presently, the Company intends to maintain the current management of the Sinodata Group to carry on the business. The Company also intends to appoint personnel / suitable candidates with experience in the PRC lottery field to the management of the Company.

Financial effects of the Acquisition

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group based on (i) the audited financial statements of the Company as at 31 December 2005 set out in Appendix II to this circular and (ii) the audited financial information of Sinodata Group as at 31 December 2005 set out in Appendix I to this circular, assuming, inter alia, that completion of the Acquisition had taken place on 1 January 2005, and taking into account certain adjustments to reflect the Acquisition.

As shown in the unaudited pro forma financial information of the Enlarged Group, the respective pro forma assets and liabilities of the Enlarged Group following the Acquisition would have been approximately HK$756,740,000 and approximately HK$249,194,000 as compared to approximately HK$349,517,000 and approximately HK$234,945,000 before the Acquisition. The pro forma net asset value per share of the Enlarged Group following the Acquisition would have been HK$0.108 as compared to HK$0.038 before the Acquisition. The respective pro forma loss attributable to Equity holders of the Enlarged Group following the Acquisition would have been approximately HK$30,743,000 as compared to approximately HK$50,700,000 before the Acquisition. The pro forma loss per share of the Enlarged Group following the Acquisition would have been HK$0.0065 as compared to HK$0.0169 before the Acquisition.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, and as represented by the Vendor in the Share Purchase Agreement, upon completion of the Acquisition and the Capital Contribution, Sinodata will be effectively beneficially owned as to 45.81% by the Company and it is expected that the Company will be entitled to exercise its power as controlling shareholder in the board of directors of Sinodata Group. Accordingly, the financial results of the members of Sinodata Group will be consolidated into those of the Group.

7. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group will have sufficient working capital for its normal business for the next 12 months from the date of this circular.

8. INDEBTEDNESS

At the close of business on 30 April 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK$206,180,000 in which approximately HK$196,246,000 were secured by listed investments belonging to clients and the Group with the market value of approximately HK$81,362,000 and HK$35,096,000 respectively. The outstanding short term other loans are interest bearing at prime rate or HIBOR plus a spread and had no fixed terms of repayment. Banking facilities were created for the settlement of cash consideration for the Acquisition and general working capital of the Group and were secured by charges over the bank deposit of approximately HK$123,000,000. As at the Latest Practicable Date, no advance has been made under the facilities.

Save as aforesaid or as otherwise disclosed therein, and apart from intra-group liabilities, the Group did not have outstanding, at the close of business on 30 April 2006, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, other loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

The Directors confirm that there is no significant change in indebtedness of the Group as at 30 April 2006 up to the Latest Practicable Date.

9. THE CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 24 March 2006 in relation to the entering into of the Placing Agreement between the Company, the Placing Agent and the Placing Vendor on 23 March 2006, pursuant to which the Placing Agent agreed to place, on a best efforts basis, up to an aggregate of 1,200,000,000 existing Shares at a price of HK$0.20 per Share on behalf of the Placing Vendor. On the same day, the Company entered into the Subscription Agreement with the Placing Vendor for the subscription of up to an aggregate of 1,200,000,000 new Shares at the same price per Share. The 1st Tranche Subscriptions Shares were allotted and issued on 4 April 2006. However, as the subscription of the 2nd Tranche Subscription Shares constitutes a connected transaction of the Company, completion of the subscription of the 2nd Tranche Subscription Shares is subject to reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Subscription Agreement

Subscriber

The Placing Vendor, holding 66.63% of the total issued capital of the Company as at the date of the Subscription Agreement, is a substantial shareholder of the Company as at the Latest Practicable Date.

Number of Subscription Shares

Equivalent to the 1,200,000,000 Placing Shares comprising the 1st Tranche Subscription Shares and the 2nd Tranche Subscription Shares. The 1st Tranche Subscription Shares represent 20% of the issued share capital of the Company as at the date of the Subscription Agreement and approximately 16.67% of the share capital as enlarged by the subscription of the 1st Tranche Subscription Shares. Further, as all the Placing Shares were placed under the Placing Agreement, the 2nd Tranche Subscription Shares represent 20% of the issued share capital of the Company as at the date of the Subscription Agreement and approximately 14.28% of the share capital as will be enlarged by the Subscription.

Subscription Price

HK$0.20 per Subscription Share, which is equivalent to the Placing Price.

Pursuant to the Subscription Agreement, the Placing Vendor agrees to subscribe as principal, and the Company agrees to issue to the Subscriber or its nominee(s) the 1st Tranche Subscription Shares and the 2nd Tranche Subscription Shares at the Subscription Price on the 1st Tranche Completion Date and the 2nd Tranche Completion Date respectively on the terms and subject to the conditions set out in the Subscription Agreement.

Upon completion of the issue and allotment of the 1st Tranche Subscription Shares and the 2nd Tranche Subscription Shares (as the case may be), the Company shall reimburse the Subscriber the expenses properly incurred by it in connection with the Placing on a pro rata basis (including without limitation the fee payable to the Placing Agent, stamp duty, the SFC transaction levy, the Stock Exchange trading fee and special levy, printing and publishing costs and legal fees) after deducting, where applicable, interest accrued and received by the Subscriber (if any) on such part of the net proceeds of the Placing during the period between completion of the Placing and the 1st Tranche Completion Date or the 2nd Tranche Completion Date (as the case may be).

Rights

The Subscription Shares will be issued and allotted free from all liens, charges, security interests, encumbrances and adverse claims on the 1st Tranche Completion Date and the 2nd Tranche Completion Date.

General Mandate to issue the 1st Tranche Subscription Shares

The 1st Tranche Subscription Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 14 June 2005.

Ranking of the Subscription Shares

The Subscription Shares shall, when fully paid, rank pari passu in all respects with the other Shares in issue on the 1st Tranche Completion Date and the 2nd Tranche Completion Date (as the case may be) including the rights to all dividends and other distributions declared, made or paid at any time after the date of allotment.

Conditions of the Subscription

(i) Completion of the issue and allotment of the 1st Tranche Subscription Shares is conditional upon:

(a) completion of the Placing having occurred pursuant to the terms of the Placing Agreement;

(b) the listing of and permission to deal in the 1st Tranche Subscription Shares being granted by the Listing Committee (and such permission and listing not subsequently being revoked prior to the delivery of definitive share certificate(s) representing the 1st Tranche Subscription Shares);

(c) if required, the granting of a waiver to the Subscriber by the SFC from general offer obligations that might otherwise arise as a result of the Subscription; and

(d) if required, the Bermuda Monetary Authority granting permission to allot and issue the 1st Tranche Subscription Shares.

The Conditions were fulfilled on 3 April 2006, and the 1st Tranche Subscription Shares were allotted and issued on 4 April 2006 in accordance with the terms of the Subscription Agreement.

(ii) Completion of the issue and allotment of the 2nd Tranche Subscription is conditional upon:

(a) the fulfilment of the Conditions;

(b) the Company obtaining Independent Shareholders' approval in relation to the issue and allotment of the 2nd Tranche Subscription Shares in accordance with Listing Rules;

(c) the listing of and permission to deal in the 2nd Tranche Subscription Shares being granted by the Listing Committee (and such permission and listing not subsequently being revoked prior to delivery of definition share certificate(s) representing the 2nd Tranche Subscription Shares); and

(d) if required, the Bermuda Monetary Authority granting permission to allot and issue the 2nd Tranche Subscription Shares.

If the Additional Conditions are not fulfilled on or prior to 15 July 2006 or such date as agreed between the parties, the Subscription Agreement shall terminate and neither of the parties have any claim against each other save for antecedent breach of the Subscription Agreement.

None of the Conditions and Additional Conditions may be waived by either the Subscriber or the Company.

Application has been made to the Stock Exchange, and permission has been granted, for the listing of and permission to deal in the 1st Tranche Subscription Shares. Application has been made to the Stock Exchange for the listing of and permission to deal in the 2nd Tranche Subscription Shares.

Completion of the Subscription

(i) The 1st Tranche Completion Date was 4 April 2006 being the day after the last of the Conditions were satisfied.

(ii) The 2nd Tranche Completion Date will be on the second Business Days after all the Conditions and Additional Conditions shall have been satisfied (or such other date as the parties may agree in writing).

10. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

Since all the Placing Shares were placed under the Placing Agreement, the net proceeds from the subscription of the 1st Tranche Subscription Shares and 2nd Tranche Subscription Shares will be approximately HK$117.5 million and HK$117.5 million respectively, assuming that the 2nd Tranche Subscription Shares will be completed. It is intended that approximately HK$152.88 million of the proceeds will be used to pay the consideration for the Acquisition under the Share Purchase Agreement and the remaining balance will be used for general working capital of the Group, including financing future working capital requirement of Multi Glory upon completion of the Acquisition .

The Directors believe that the terms of the Subscription are fair and reasonable and in the interests of the Shareholders as a whole.

11. EFFECTS ON SHAREHOLDING STRUCTURE

In the event that the Subscription is completed before the completion of the Acquisition and the issue and allotment of the Consideration Shares, the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately upon the issue and allotment of the Subscription Shares pursuant to the Subscription, and (iii) immediately upon the issue and allotment of the Consideration Shares are as follows:

	As at the Latest Practicable Date		**Upon the issue and allotment of the Shares under the Subscription**		**Upon the issue and allotment of the Consideration Shares**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Kingly Profits Corporation *(Note)*	1,298,805,635	35.53	1,898,805,635	44.61	1,898,805,635	39.93
The Placees	1,200,000,000	32.82	1,200,000,000	28.20	1,200,000,000	25.23
The Vendor (or its nominee)	–	–	–	–	500,000,000	10.51
Public	1,157,194,365	31.65	1,157,194,365	27.19	1,157,194,365	24.33
Total	3,656,000,000	100.00	4,256,000,000	100.00	4,756,000,000	100.00

In the event the Acquisition is completed before the Subscription has been completed, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue and allotment of the Consideration Shares pursuant to the completion of the Share Purchase Agreement; and (iii) immediately upon the issue and allotment of the Subscription Shares pursuant to the Subscription are as follows:

	As at the Latest Practicable Date		Upon the issue and allotment of the Consideration Shares		Upon the issue and allotment of the Shares under the Subscription	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Kingly Profits Corporation *(Note)*	1,298,805,635	35.53	1,298,805,635	31.25	1,898,805,635	39.93
The Placees	1,200,000,000	32.82	1,200,000,000	28.87	1,200,000,000	25.23
The Vendor (or its nominee)	–	–	500,000,000	12.03	500,000,000	10.51
Public	1,157,194,365	31.65	1,157,194,365	27.85	1,157,194,365	24.33
Total	3,656,000,000	100.00	4,156,000,000	100.00	4,756,000,000	100.00

Note:

Kingly Profits Corporation is owned as to 70.18% by King United Agents Limited, King United Agents Limited is wholly-owned by Mr. To Shu Fai.

The issuance and allotment of the Consideration Shares under the Acquisition and the Subscription Shares pursuant to the Subscription will not result in a change in control of the Company. Kingly Profits Corporation will remain as the single largest shareholder of the Company.

Kingly Profits Corporation is an investment holding company which is incorporated in the British Virgin Islands. It is beneficially owned as to approximately 70.2% by Mr. To Shu Fai and as to approximately 29.8% by Mr Chan How Chung, Victor.

12. APPLICATION FOR LISTING

Application has been made by the Company to the Listing Committee, and permission has been granted for the listing of, and permission to deal in the 1st Tranche Subscription Shares. Application has been made to the Stock Exchange for the listing and permission to deal in the 2nd Tranche Subscription Shares and the Consideration Shares.

13. LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction of the Company under the Listing Rules and is conditional on the approval of the Shareholders. Since no Shareholder has any interest in the Acquisition, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Acquisition.

As the subscription for the 2nd Tranche Subscription Shares constitutes a connected transaction of the Company under Rule 14A.10(13)(g) of the Listing Rules and as the exemptions provided under Chapter 14A of the Listing Rules do not apply to such subscription, it is therefore subject to the reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to the Listing Rules, Kingly Profits Corporation and its associates are required to abstain from voting in respect of the ordinary resolution to approve the Connected Transaction at the SGM because of its interest in the transaction. As the placees under the Placing Agreement do not have a material interest in the Connected Transaction, they do not have to abstain from voting in respect of the ordinary resolution to approve the Connected Transaction at the SGM.

14. REFRESHMENT OF THE SHARE OPTION SCHEME MANDATE

The Company adopted the Share Option Scheme on 22 November 2002. The Scheme Mandate Limit was set at 10% of the Shares in issue as at the date of adoption of the Share Option Scheme in compliance with the Listing Rules. Under the Share Option Scheme, up to 300,000,000 Shares may be issued upon the exercise of all Options under the Share Option Scheme. Subject to prior Shareholders' approval, the Company may, at any time thereafter, refresh the Scheme Mandate Limit to the extent not exceeding 10% of the Shares in issue as at the aforesaid Shareholders' approval.

As at the Latest Practicable Date, Options carrying the rights to subscribe for 300,000,000 Shares were granted under the Scheme Mandate Limit as adopted on 22 November 2002, which represented 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme, and approximately 8.33% of the issued share capital of the Company as at the Latest Practicable Date. As at the Latest Practicable Date, 56,000,000 Options had been exercised and 244,000,000 Options have been granted but not exercised. There will be 300,000,000 Shares allotted and issued if such Options are exercised in full. No Directors had any interests in the Options as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company had 3,656,000,000 Shares in issue. Pursuant to the terms of the Share Option Scheme and in compliance with the Listing Rules, the maximum number of Shares, which may be issued upon the exercise of all the Options to be granted under the Share Option Scheme under the Scheme Mandate Limit as refreshed should be 365,600,000 Shares (assuming no further issue of Shares prior to the SGM).

It is proposed that subject to the Listing Committee granting the listing of, and permission to deal in the Shares to be issued pursuant to the exercise of Options granted under the refreshed Scheme Mandate Limit and the passing of the relevant resolution at the SGM, the Scheme Mandate Limit be refreshed so that the total number of Shares, which may be issued upon exercise of all Options to be granted under the Share Option Scheme under the Scheme Mandate Limit as refreshed, shall not exceed 10% of the Shares in issue as at the date of approval of the relevant resolution by the Shareholders at the SGM. Options previously granted under the Share Option Scheme (including without limitation those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed.

Pursuant to the Listing Rules, the Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme at any time will not exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

Conditions of the refreshment of the Scheme Mandate Limit

The proposed refreshment of the Scheme Mandate Limit is conditional upon:

(i) the passing of the ordinary resolution by the Shareholders at the SGM to approve the proposed refreshment of the Scheme Mandate Limit; and

(ii) the Listing Committee granting the listing of, and permission to deal in the Shares to be issued pursuant to the exercise of the Options granted under the refreshed Scheme Mandate Limit.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of Options granted under the refreshed Scheme Mandate Limit.

Reasons for the refreshment of the Scheme Mandate Limit

The proposed refreshment of the Scheme Mandate Limit will enable the Company to grant further Options to eligible participants so as to provide opportunities and incentives to them to work towards enhancing the values of the Company and Shares for the benefit of the Company and Shareholders as a whole.

15. SPECIAL GENERAL MEETING

The Special General Meeting will be convened and held to consider and, if thought fit, approve (i) the Acquisition; (ii) the issue of the Consideration Shares; (iii) the Connected Transaction; and (iv) the refreshment of the Scheme Mandate Limit.

The notice of the Special General Meeting is set out on pages 175 to 178 of this circular. A form of proxy for use at the Special General Meeting is enclosed. Whether or not you are able to attend the Special General Meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting should you wish.

16. PROCEDURES BY WHICH SHAREHOLDERS MAY DEMAND A POLL AT THE SPECIAL GENERAL MEETING

The following sets out the procedures by which the Shareholders may demand poll at the Special General Meeting.

According to bye-law 70 of the bye-laws of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(i) the chairman of such meeting; or

(ii) at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

17. RECOMMENDATIONS

Based on the relevant information disclosed herein, the Directors believe that (i) the Acquisition; (ii) the issue of the Consideration Shares; (iii) the Connected Transaction; and (iv) the refreshment of the Scheme Mandate Limit are fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve (i) the Acquisition; (ii) the issue of the Consideration Shares; (iii) the Connected Transaction; and (iv) the refreshment of the Scheme Mandate Limit.

18. ADDITIONAL INFORMATION

Your attention is also drawn to the financial and general information set out in the appendices to this circular.

By Order of the Board
Chan How Chung, Victor
Executive Director

The following is the text of a letter of advice to the Independent Shareholders from the Independent Board Committee setting out their opinion for the purpose of incorporation into this circular.

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

12 June 2006

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

We refer to the circular of the Company dated 12 June 2006 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to the fairness and reasonableness of the terms of the Connected Transaction. FB Gemini Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise you and us in this regard. Details of its recommendation, together with the principal factors and reasons it has taken into consideration in arriving at its recommendation are set out in its letter of advice set out on pages 36 to 53 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 7 to 34 of the Circular and the additional information set out in the Appendices to the Circular.

Having considered the terms of the Connected Transaction, and taken into account the advice from FB Gemini Capital Limited and in particular the principal factors and reasons set out in the letter of advice from FB Gemini Capital Limited, we are of the view that the Connected Transaction is in the interests of the Company and the Shareholders as a whole and the terms of the Connected Transaction are fair and reasonable.

Yours faithfully,
Mr. Yuen Wai Ho
Mr. On Kien Quoc
Mr. Chow Siu Ngor

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from FB Gemini setting out their opinion for the purpose of incorporation into this circular.

FB Gemini Capital Limited
1503 Cheung Kong Center,
2 Queen's Road Central Hong Kong

12 June 2006

To the Independent Board Committee and Independent Shareholders of
REXCAPITAL Financial Holdings Limited

Dear Sirs,

CONNECTED TRANSACTION AND SUBSCRIPTION OF NEW SHARES BY KINGLY PROFITS CORPORATION

INTRODUCTION

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the subscription for the 2nd Tranche Subscription Shares pursuant to the Subscription Agreement (the "**2nd Tranche Subscription**"), details of which are set forth in the Letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 12 June 2006 (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 23 March 2006, the Company, the Placing Agent and Kingly Profits Corporation ("**Kingly Profits**") entered into the Placing Agreement, pursuant to which the Placing Agent agreed to place up to an aggregate of 1,200,000,000 existing Shares at a price of HK$0.20 per Share on behalf of Kingly Profits. On the same day, the Company entered into the Subscription Agreement with Kingly Profits for the subscription of up to an aggregate of 1,200,000,000 new Shares at the same price per Placing Share with a total consideration of HK$240 million. Pursuant to the Subscription Agreement, the Subscription Shares comprising (i) the 1st Tranche Subscription Shares and (ii) the 2nd Tranche Subscription Shares, are to be subscribed by Kingly Profits on the 1st Tranche Completion Date and the 2nd Tranche Completion Date respectively.

Assuming all the Subscription Shares will have been subscribed by Kingly Profits, the Subscription Shares represent 40% of the issued share capital of the Company prior to the Subscription and approximately 28.57% of the issued share capital as enlarged by the Subscription Shares.

We were advised by the management of the Company that as at 29 March 2006, 1,200,000,000 Placing Shares had been placed by the Placing Agent to more than six professional, institutional and other investors under the Placing Agreement. Correspondingly, on 4 April 2006, Kingly Profits subscribed for 600,000,000 Subscription Shares, being the 1st Tranche Subscription Shares allotted and issued by the Company in accordance with the terms of the Subscription Agreement. The 1st Tranche Subscription Shares, allotted and issued by the Company under a general unconditional mandate granted to the Directors at the general meeting of the Company held on 14 June 2005, represent 20% of the issued share capital of the Company prior to the Subscription and approximately 16.67% of the share capital as enlarged by the 1st Tranche Subscription Shares. Further assuming all the Additional Conditions of the Subscription (detailed terms and conditions of the Subscription Agreement are set out in the Letter from the Board) will have been satisfied under the Subscription Agreement and the 2nd Tranche Subscription Shares will have been subscribed by Kingly Profits on the 2nd Tranche Completion Date (being the second Business Date after all the Conditions and Additional Conditions will have been satisfied or such other date as the Company and Kingly Profits may agree in writing), the 2nd Tranche Subscription Shares represent 20% of the issued share capital of the Company prior to the Subscription and approximately 14.28% of the share capital as enlarged by the Subscription.

We understand from the announcement of the Company published on 24 May 2006 that the top-up Placing and Subscription is carried out for raising the required amount of funds for the Acquisition. The consideration payable by the Group for the Acquisition is HK$227,880,000 which is to be satisfied as to HK$152,880,000 in cash and as to HK$75,000,000 by the issue of the Consideration Shares to the Vendor (or its nominee) at a price of HK$0.15 per Consideration Share. The net proceeds from the subscription of the 1st Tranche Subscription Shares and the 2nd Tranche Subscription Shares (assuming the 2nd Tranche Subscription Shares are subscribed by Kingly Profits) are approximately HK$117.5 million and approximately HK$117.5 million respectively. It is intended that approximately HK$152.88 million of the proceeds will be used to pay the cash consideration for the Acquisition, and the remaining balance of approximately HK$82.12 million will be used for general working capital of the Group including financing future working capital requirements of Sinodata Group upon completion of the Acquisition.

As Kingly Profits, owned as to 70.18% indirectly by Mr. To Shu Fai, is the controlling shareholder of the Company and the issue of the 2nd Tranche Subscription Shares will not take place within 14 days of execution of the Placing Agreement, the subscription of the 2nd Tranche Subscription Shares constitutes a non-exempt connected transaction of the Company under Rule 14A.10(13)(g) of the Listing Rules and as the exemptions provided under Chapter 14A of the Listing Rules do not apply to such subscription, it is therefore subject to the reporting and approval by the Independent Shareholders by way of a poll at the SGM. Kingly Profits and its associates are required to abstain from voting in respect of the resolution to be proposed to approve the 2nd Tranche Subscription.

The Independent Board Committee has been established to advise whether the terms of the 2nd Tranche Subscription are fair and reasonable and whether the 2nd Tranche Subscription is in the interests of the Company and its Independent Shareholders as a whole. The Independent Board Committee comprises Mr. Chow Siu Ngor, Mr. Yuen Wai Ho and Mr. On Kien Quoc, all of whom are independent non-executive Directors. FB Gemini has been appointed by the Company to give an opinion to the Independent Board Committee and the Independent Shareholders on (i) the fairness and reasonableness of the terms of the 2nd Tranche Subscription contemplated under the Subscription Agreement so far as the interests of the Independent Shareholders are concerned and (ii) the 2nd Tranche Subscription is in the interest of the Company and Shareholders as a whole are concerned. We do not, by this letter, warrant the merits of the 2nd Tranche Subscription contemplated under the Subscription Agreement or the Acquisition and the consideration of the Acquisition.

BASIS OF OUR OPINION

In formulating our opinions and recommendations, we have relied on the accuracy of the information, facts and representations contained or referred to in the Circular, and the information, facts and representations provided by, and the opinions expressed by, the Directors, the Company and its management. We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular or otherwise provided or made or given by the Directors and/or the Company and/or its management and for which they are solely responsible, were true, accurate, complete and correct in all respects at the time they were made and continued to be true, accurate and complete as at the date of despatch of the Circular.

We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular are reasonably made after due enquiry and based on honestly held opinions. We have no reason to doubt the truth, accuracy, and completeness of the information, facts, opinions, and representations provided to us by the Directors, the Company, and its management. The Directors have confirmed to us that no material facts have been omitted from the information and representations provided and the opinions expressed and referred to in the Circular. We have no reason to suspect that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, nor do we have reason to doubt the reasonableness of the opinions and representation provided to us by the Company.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm that, having made all reasonable enquiries that, to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts or representations not contained in the Circular the omission of which would make any statement in the Circular, including this letter, misleading. We have relied on such information and opinions and have not, however, carried out any independent verification of the information provided to us, nor have we conducted any investigation into the business, financial conditions and affairs or the future prospects of the Company.

THE SUBSCRIPTION

Principal Factors and Reasons Considered

In arriving at our recommendations to the Independent Board Committee and the Independent Shareholders in relation to the 2nd Tranche Subscription, we have taken into consideration the following principal factors and reasons:

1. Background of the Group and reasons for the top-up Placing and Subscription

The Group is principally engaged in the provision of financial services including broking, securities margin financing, money lending, investment trading and holding, corporate finance and asset management in Hong Kong. The audited consolidated turnover and profit and loss after tax of the Company for each of the financial years ended 31 December 2004 ("**FY2004**") and 31 December 2005 ("**FY2005**") are summarized as follows:

	For FY2004	**For FY2005**
	(Audited)	(Audited)
	Approx.	*Approx.*
	HK$'000	*HK$'000*
Turnover	169,137	41,938
Profit/(Loss) after tax	(77,674)	(50,700)

Source: Annual Report of the Company ended 31 December 2005

The Group recorded a turnover of approximately HK$41.94 million in FY2005 as compared to approximately HK$169.14 million in FY2004. As advised by the management of the Company, such substantial decrease, representing approximately 75.20% drop in turnover over the two corresponding periods was mainly attributable to the cut in the turnover of investment trading and holding activities carried out by the Group from approximately HK$91.96 million in FY2004 down to HK$617,000 in FY2005. In FY2005, the Group continued to record a loss of approximately HK$50.70 million as compared to a loss of approximately HK$77.67 million in FY2004. We understand from the management of the Company that the loss in FY2005 was mainly caused by continuing provisions made for the securities margin-financing and money lending businesses carried out by the Group in previous years. However, the Directors are of the view that the reduction of approximately 34.72% in the losses in FY2005 over the previous period was the outcome of the continuing adoption of stricter controls on the securities margin financing and money lending businesses over a period of time.

We note that in order to reactivate the vitality of the Group's profitability in a competitive market, the Group has been streamlining its operations and proactively identifying suitable opportunities in the PRC and other Asian areas so as to diversify the Group's business and enhance its revenue base and profitability in the longer term. The Directors are of the view that Sinodata Group is one of the leading groups in the supply of machine and system in the welfare lottery business in the PRC, accounting for approximately 40% of the total welfare lottery market in the PRC in terms of geographical coverage, number of machines deployed and welfare lottery revenue in the provinces covered. The proposed Acquisition, as expected by the Directors, will provide an opportunity for the Group to diversify its business into the machines and system supply section of the welfare lottery market in the PRC, in which the Directors anticipate a substantial growth potential in the future. Based on the information provided by the management of the Company, the profit after tax generated by Sinodata Group increased from approximately RMB11.34 million (equivalent to approximately HK$10.9 million) in 2003 to approximately RMB20.75 million (equivalent to approximately HK$19.95 million) in 2005, representing a cumulative annual growth rate of approximately 35.27% over the periods. The Directors also believe that the Acquisition would enable the Company to strengthen its recurrent income base immediately after the Acquisition and, in turn, would have a positive impact on the Company's long-term profitability.

In arriving at the decision of the Acquisition, the Directors have considered factors including prospects of Sinodata Group, the position of the Sinodata Group in the welfare lottery business in the PRC and its growth potential, information of which are primarily derived from the financial information of Sinodata Group. We note that the financial information of the two disposed subsidiaries namely 北京思樂信息技術有限公司 ("**北京思樂**") and 杭州思樂禾源數碼技術有限公司 ("**杭州思樂**") (together the "**Disposed Subsidiaries**") for the period from 1 January 2003 to their respective dates of disposal, where applicable, have not been included in the consolidated financial statements of Sinodata Group for each of the three years ended 31 December 2003,2004 and 2005 (the "**Relevant Years**").

Regarding the subject, we discussed with the management of the Company and auditor of Sinodata Group and note that the auditor was unable to collect sufficient information of the Disposed Subsidiaries as the relevant information were taken by the respective acquirers since the date of their disposal. We understand from the auditor that they had made all possible steps to acquire the relevant financial information of the Disposed Subsidiaries from the management of Sinodata, but the attempts turned out to be unsuccessful.

As disclosed in the financial report of Sinodata Group, the auditor is unable to quantify the financial effect resulted from the omission of the financial information of the Disposed Subsidiaries in the consolidated financial statements of Sinodata Group. Nevertheless, the auditor has given an opinion that, except for the possible effect of the circumstances in respect of 北京思樂 and 杭州思樂, the financial information set out in Appendix I to the Circular gives a true and fair view of the state of affairs of Sinodata Group as at 31 December 2003, 2004 and 2005 and of Sinodata as at 31 December 2005 and of the results and cash flow of the Sinodata Group for the Relevant Years.

In addition, the management of the Company has also confirmed to us the following:

1. 北京思樂 was engaged in providing consultancy services on information technology in the PRC and 杭州思樂 was engaged in selling and development of automatic teller machines in the PRC, thus the Disposed Subsidiaries operated in a separate line of business from Sinodata and its current group companies;

2. the disposal of the Disposed Subsidiaries was due to the strategies of Sinodata in streamlining its principal business into the development and production of lottery machines and related software system instead of other business operated by the Disposed Subsidiaries;

3. there were no significant transactions between each of 北京思樂 and 杭州思樂 and the other companies of the Sinodata Group during the Relevant Years;

4. to the best of the knowledge of the management of the Company, the disposal of the Disposed Subsidiaries resulted from the negotiation between the then Sinodata Group and independent third parties on an arm's length basis; and

5. the consideration payable by the Group for the Acquisition does not include any value attributed to the Disposed Subsidiaries.

FB Gemini is not an expert on, and may not render opinions regarding accounting matters, including the reliability of the financial statements contained in Appendix I to the Circular. Without prejudice the above, given (i) the auditor's opinion that, except for the possible effect of the circumstances in respect of 北京思樂 and 杭州思樂, the financial information set out in Appendix I to the Circular gives a true and fair view of the state of affairs of Sinodata Group for the Relevant Years; (ii) that the management of the Company considers that the non-inclusion of the financial information in respect of the Disposed Subsidiaries does not have any material adverse impact on the subject matter of the Acquisition, and does not affect the fairness and reasonableness of the considerations for the Acquisition; and (iii) that the continuing operations of Sinodata Group are different from the business of the Disposed Subsidiaries, we are of the view that it is reasonable to rely on the financial statements contained in Appendix I to the Circular for the specific purpose of issuing our opinion on the terms of the 2nd Tranche Subscription.

Given (i) the high growth potential of the lottery market in the PRC and (ii) the leading position of Sinodata Group in the supply of machine and system section in the welfare lottery market in the PRC, the proposed Acquisition would enable the Company to take the opportunity to (i) diversify the Group's business into other areas of high growth potential; (ii) enhance the Company's revenue base immediately after the Acquisition; and (iii) revitalize the profitability and growth potential of the Group in the longer term. In considering the rationale given by the Directors and the unaudited proforma financial information of the Enlarged Group set out in Appendix III to the Circular, we understand that the Acquisition would contribute positively to the turnover and results of the Group assuming that the Acquisition had been taken place on 1 January 2005 for the purpose of illustrating how the Acquisition might have affect the results of the Group. As a result, we are of the view that it is sensible for the Directors to diversify the Group's business by way of the Acquisition with an aim to invigorate the future development of the Group.

We are of the opinion that the 2nd Tranche Subscription is part of the top-up arrangement in conjunction with the Placing in order to facilitate the Company to carry out the Acquisition. Having considered the above, we concur with the Directors' view that the 2nd Tranche Subscription contemplated under the Subscription Agreement is in the interest of the Company and Shareholders as a whole.

2. Financing methods

The Directors have considered various commercial financing alternatives, through bank borrowing or equity financing. However, given that the amount of funds required by the Group for the Acquisition is relatively large given its existing loss-making operations, the interest expenses from borrowing may result in unfavourable financial and debt positions. The Directors believe that debt financing is not practical or beneficial to the Group and Shareholders as a whole.

In view of the Group's existing loss-making operations and its relatively low net asset value per Share, the Directors are of the view that equity financing such as a large-scale rights issue of Shares is also not feasible. The Directors also believe that a large discount to current market price of the Shares may be necessary to attract potential investors and existing Shareholders. In addition, the low liquidity of Shares also makes it difficult to procure potential investors and existing Shareholders to support a large-scale rights issue exercise. For the past 12 months up to and including 23 March 2006, being the last trading day of the Shares on the Stock Exchange prior to the issue of the Announcement, the average daily trading volume of the Shares was less than 1% of the then total number of issued Shares of the Company.

The Directors believe that equity financing by way of a top-up placing of new Shares to professional and institutional investors would be a more appropriate financing method for the Acquisition. The Subscription not only enables the Group to raise an adequate funding for the Acquisition in a timely manner as well as to gain the benefits from timing the placing to match favourable market conditions, but also allows the Group to further broaden the shareholder base of the Company with the inclusion of more professional and institutional investors.

Having considered alternative sources of funding, we concur with the Directors' view that notwithstanding the top-up Placing and the Subscription will dilute the existing shareholding interest of the Shareholders, the Placing and Subscription represent an opportunity to raise capital for the Company at a considerably lower cost in order to enhance the existing business of the Group and the general working capital base while at the same time help broaden the shareholder base of the Company.

3. The Subscription Agreement

(i) Subscription Shares

Under the Subscription Agreement, the Company had conditionally agreed to allot and issue to Kingly Profits, up to an aggregate of 1,200,000,000 Subscription Shares at the Subscription Price of HK$0.20 per Subscription Share. As at 4 April 2006, the 1st Tranche Subscription Shares were allotted and issued by the Company under a general unconditional mandate granted to the Directors at the general meeting of the Company held on 14 June 2005. The consideration of HK$120 million (HK$117.5 million net of expenses) has been settled by Kingly Profits in cash. The 2nd Tranche Subscription Shares will be subscribed by Kingly Profits when the relevant resolution is approved by the Independent Shareholders at the SGM. Detailed terms and conditions of the Subscription Agreement are set out in the Letter from the Board.

(ii) Subscription Price

The Subscription Price of HK$0.20 per Subscription Share, which is same as the Placing Price represents:

		Price per Share approximately *(HK$)*	**Premium/ (Discount) approximately** *%*
(i)	Closing price as quoted on the Stock Exchange as at 23 March 2006, being the last trading day of the Shares on the Stock Exchange prior to the issue of the announcement	0.218	(8.26)
(ii)	Average closing price per Share for the last 10 consecutive trading days up to and including 23 March 2006 as quoted on the Stock Exchange	0.1446	38.31
(iii)	Average closing price per Share for the last 30 consecutive trading days up to and including 23 March 2006 as quoted on the Stock Exchange	0.0896	123.21

		Price per Share approximately *(HK$)*	Premium/ (Discount) approximately *%*
(iv)	The audited consolidated net asset value of the Group per Share as at 31 December 2005	0.0382	423.56
(v)	Closing price quoted on the Stock Exchange as at the Latest Practicable Date	0.3	(33.33)

Source: website of the Stock Exchange

As shown above, the Subscription Price of HK$0.20 per Subscription Share represents:

(i) a discount of approximately 8.26% to the closing price of HK$0.218 per Share as quoted on the Stock Exchange on 23 March 2006;

(ii) a premium of approximately 38.31% to the average closing price per Share of HK$0.1446 for the last 10 consecutive trading days up to and including 23 March 2006 as quoted on the Stock Exchange;

(iii) a premium of approximately 123.21% to the average closing price of HK$0.0896 per Share for the last 30 consecutive trading days up to and including 23 March 2006 as quoted on the Stock Exchange; and

(iv) a premium of approximately 423.56% with reference to the net asset values per Share of approximately HK$0.0382 based on the latest audited consolidated accounts of the Group ended on 31 December 2005.

In assessing the fairness and reasonableness of the 2nd Tranche Subscription Price, we have identified the share placements (the "**Comparable Placements**") conducted by companies that are listed on the Main Board of the Stock Exchange (the "**Comparable Companies**") for the period from 1 March 2006 up to 24 March 2006, being the date of the publication of the announcement of the Company. The following table sets out the premium/discount represented by each of the respective placing/subscription price to (i) the closing price on the last trading day prior to the release of the announcement of the Comparable Companies; and (ii) the average 10-day closing price prior to the release of the relevant announcement.

Comparable Company	Type of placement	Date of the publication of the announcement	Subscription price *(HK$)*	Premium/ (Discount) to the closing price on last trading day before announcement	Premium/ (Discount) to the 10-day average closing price before announcement
CATIC International Holdings Limited (232)	Top-up placing	24 March 2006	$0.115	(9.45%)	(4.17%)
Capital Strategic Investment Limited (497)	Top-up placing	23 March 2006	$1.31	(8.39%)	2.34%
China Merchants Dichain (Asia) Limited (632)	Placing of new shares	23 March 2006	$0.01	(67.74%)	(65.87%)
Hi Sun Technology (China) Limited (818)	Placing of new shares	21 March 2006	$1.46	(19.78%)	(14.57%)
Mei Ah Entertainment Group Limited (391)	Placing of new shares	20 March 2006	$0.315	26%	22.09%
China Water Affairs Group Limited (855)	Top-up placing	16 March 2006	$0.96	(12.72%)	(10.03%)
Sino Gas Group Limited (260)	Top-up placing	16 March 2006	$0.52	(14.75%)	(1.89%)

Comparable Company	Type of placement	Date of the publication of the announcement	Subscription price *(HK$)*	Premium/ (Discount) to the closing price on last trading day before announcement	Premium/ (Discount) to the 10-day average closing price before announcement
Rexcapital International Holdings Limited (155)	Top-up placing	15 March 2006	$0.59	(6.35 %)	19.80%
Sino Katalytics Investment Corporation (2324)	Placing of new shares	13 March 2006	$0.75	(10.71%)	(2.22%)
Lai Fung Holdings Limited (1125)	Placing of new shares	10 March 2006	$0.40	(6.98%)	3.49%
Seapower Resources International Limited (269)	Placing of new shares	10 March 2006	$0.128	(17.95%)	(14.04%)
Vongroup Limited (318)	Top-up placing	8 March 2006	$1.40	(10.26%)	(5.41%)
Heritage International Holdings Limited (412)	Placing of new shares	7 March 2006	$0.025	Same as closing price	35.87%

Source: website of the Stock Exchange

We note from the above that the placing/subscription price of the Comparable Placements represented (i) a maximum premium of approximately 26% to a maximum discount of approximately 67.74% to the closing price on the last trading day prior to the release of the relevant announcement with an average discount of approximately 12.24%; and (ii) a maximum premium of approximately 35.87% to a maximum discount of approximately 65.87% to the average closing price for the last ten trading days prior to the release of the relevant announcement with an average discount of approximately 2.66%.

The discount of the 2nd Tranche Subscription Price to the closing price on the last trading day of approximately 8.26% falls in the low end of the respective range of the Comparable Placements and the premium of the 2nd Tranche Subscription Price to the last ten trading day average closing price of approximately 38.31% falls in the high end of the respective range of the Comparable Placements.

In light of the above, we are of the view that the Subscription Price is fair and reasonable with reference to the latest placing/subscription price of the Comparable Placements so far as the Independent Shareholders are concerned.

4. Potential dilution to shareholding of the Independent Shareholders

We set out below tables depicting (i) the shareholding structure of the Company prior to the top-up Placing and Subscription; (ii) the shareholding structure after the Placing but before the 1st Tranche Subscription; (iii) the shareholding structure upon the completion of the 1st Tranche Subscription; (iv) the shareholding structure as at the Latest Practicable Date after the completion of the 1st Tranche Subscription; (v) for illustrative purpose, the shareholding structure of the Company immediately upon the completion of the 2nd Tranche Subscription (assuming that the relevant resolution of the 2nd Tranche Subscription will be approved by the Independent Shareholders at the SGM); and (vi) the shareholding structure after the completion of the Acquisition (including the enlargement of issued capital of the Company caused by the allotment and issue of Consideration Shares to the Vendor).

Share capital movement up to the Latest Practicable Date

Shareholder	Shareholding prior to Placing and Subscription		Shareholding after the Placing but before the 1st Tranche Subscription		Shareholding upon completion of 1st Tranche Subscription		Shareholding as at the Last Practicable Date	
	No. of Share	*Approx. %*	*No. of Share*	*Approx. %*	*No. of Share*	*Approx. %*	*No. of Share*	*Approx. %*
Kingly Profits *(Note 1)*	1,998,805,635	66.63%	798,805,635	26.63 %	1,398,805,635	38.86%	1,298,805,635 *(Note 2)*	35.53%
Placees of the Placing	–	–	1,200,000,000	40%	1,200,000,000	33.33%	1,200,000,000	32.82%
Other public shareholders	1,001,194,365	33.37%	1,001,194,365	33.37%	1,001,194,365	27.81%	1,101,194,365	30.12%
Other option holders	–	–	–	–	–	–	56,000,000 *(Note 3)*	1.53%
Total	3,000,000,000	100%	3,000,000,000	100%	3,600,000,000	100%	3,656,000,000	100%

Notes

1. As at the Latest Practicable Date, Kingly Profits is owned as to 70.18% by King United Agents Limited, which in turn, is wholly-owned by Mr. To Shu Fai.

2. On 3 May 2006, Kingly Profits disposed of 100 million Shares on the stock market.

3. During the period in May 2006, certain staff and consultants who are not directors, chief executives and substantial shareholders or their respective associates exercised their rights in the share options and the Company allotted and issued a total of 56,000,000 Shares to the respective option holders accordingly.

Share capital movement for illustrative purpose

Shareholder	Shareholding immediately after the completion of 2nd Tranche Subscription		Shareholding after the completion of Acquisition	
	No. of Share	*Approx. %*	*No. of Share*	*Approx. %*
Kingly Profits	1,898,805,635	44.61%	1,898,805,635	39.93%
Placees of the Placing	1,200,000,000	28.20%	1,200,000,000	25.23%
The Vendor	–	–	500,000,000 *(Note)*	10.51%
Other public shareholders	1,101,194,365	25.87%	1,101,194,365	23.15%
Other option holders	56,000,000	1.32%	56,000,000	1.18%
Total	4,256,000,000	100%	4,756,000,000	100%

Note: the consideration payable by the Group for the Acquisition is partially to be satisfied as to HK$75,000,000 by the issue of the Consideration Shares to the Vendor at a price of HK$0.15 per Consideration Share.

As at the Latest Practicable Date, the existing shareholding of the Independent Shareholders (including the placees of the Placing and certain staff and consultants who exercised their share options during May 2006) in the Company was approximately 64.47% based on 3,656,000,000 Shares in issue. The shareholding of the Independent Shareholders in the Company will be:

(i) reduced by approximately 9.08% to approximately 55.39% based on 4,256,000,000 Shares then in issue upon completion of the 2nd Tranche Subscription; and

(ii) reduced by approximately 14.91% to approximately 49.56% based on 4,756,000,000 Shares then in issue upon completion of the 2nd Tranche Subscription and the allotment and issue of Consideration Shares to the Vendor.

We are of the view that the dilution effect is justifiable as the 2nd Tranche Subscription is part of the top-up arrangement in conjunction with the Placing in order to facilitate the Company to capture the current market sentiment to raise capital at a considerably lower cost to fund the Acquisition.

5. Possible financial effects on the Group

(i) Working capital

Assuming all the Subscription Shares are subscribed under the Subscription Agreement, the net proceeds from the subscription of the 1st Tranche Subscription Shares and 2nd Tranche subscription Shares are approximately HK$117.5 million and approximately HK$117.5 million respectively. It is intended as to approximately HK$152.88 million of the proceeds will be used to pay the consideration for the Acquisition, and the remaining balance of approximately HK$ 82.12 million will be used for general working capital of the Group. As such, the 2nd Tranche Subscription will have a positive net cash flow effect on the Group's working capital and add to the Company's cash and bank balance an amount of approximately HK$82.12 million after the payment of the cash consideration of the Acquisition in full. We note from the management of the Company that the amount will be later used for general working capital of the Group including financing future working capital requirements of Sinodata Group upon completion of the Acquisition.

(ii) Gearing ratio (total outstanding borrowings to shareholders' funds)

As at the Latest Practicable Date, the shareholders' fund (including the subscription moneys paid by Kingly Profits for the 1st Tranche Subscription Shares and certain option holders after the exercise of the respective share options) in a sum of approximately HK$239,072,317 will increase by the amount of the net proceeds of the 2nd Tranche Subscription in a sum of HK$117.5 million to approximately HK$356,572,317 upon completion of the Placing and the Subscription. As advised by the management of the Company, the total outstanding borrowings as at the Latest Practicable Date is in a sum of HK$197,336,832, hence there would be an improvement in the gearing ratio from approximately 0.83 to approximately 0.55 by virtue of the Subscription (assuming there is no change in bank borrowing from the Latest Practicable Date to the completion of the Placing and Subscription).

(iii) Earnings

While there is no immediate impact on earnings, the consideration from the Subscription comprising the 1st Tranche Subscription and 2nd Tranche Subscription will enable the Group to pursue its business plans of diversifying into the machines and system supply section of the welfare lottery market in the PRC with a view to enhancing the profitability and growth of the Group in the future.

We understand that the Directors are of the view that after the completion of the Acquisition, the consolidated financial results of the Sinodata Group will be consolidated in the consolidated accounts of the Group. As a result, the Directors believe that the Group's recurrent income base would be strengthened which would have a positive impact on the Group's long term profitability.

(iv) Net assets value

On a per Share basis, the share of net asset value of public Shareholders will increase after the completion of the 2nd Tranche Subscription. Based on the information provided by the management of the Company, the net asset value per Share as at the Latest Practicable Date was approximately HK$0.0654. The net asset value per Share will increase to:

(i) approximately HK$0.0838, representing an improvement of approximately 28.13% taking into account the estimated net proceeds of approximately HK$117.5 million and based on the enlarged share capital of 4,256,000,000 Shares upon completion of the 2nd Tranche Subscription; and

(ii) approximately HK$0.075, representing an improvement of approximately 14.68% taking into account the estimated net proceeds of approximately 117.5 million from the 2nd Tranche Subscription and based on the enlarged share capital of 4,756,000,000 Shares upon the allotment and issue of Consideration Shares to the Vendor.

Having considered these benefits, we are of the view that the aforesaid dilution of Independent Shareholders (including the placees of the Placing and other relevant shareholders), excluding Kingly Profits, from approximately 64.47% currently to approximately 55.39% after completion of the 2nd Tranche Subscription and to approximately 49.56% after the completion of the Acquisition, while on its own is not favourable, is acceptable after taking into account the increase in net asset value per Share after the completion of the Subscription.

CONCLUSION AND RECOMMENDATION

Based on the current operating environment, it is important that the Group continue with its efforts in new business development while at the same time consolidating its existing business in the provision of financial services. To remain competitive, the Group would therefore require further funding to pursue these plans. Having taken into account the benefits of the Subscription to the Group and that the terms of the 2nd Tranche Subscription are fair and reasonable notwithstanding the dilution effect it has on the shareholding of Independent Shareholders, we are of the opinion that the 2nd Tranche Subscription is in the interest of the Group and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the 2nd Tranche Subscription at the SGM.

Yours faithfully,
For and on behalf of
FB Gemini Capital Limited

Tsang Kin Hung, Ricky
Director and General Manager of Corporate Finance

Tsang Hei Ho, Keith
Director

The following is the text of a report dated 12 June 2006 made by the independent reporting accountants, Ting Ho Kwan & Chan, for the purpose of incorporation in this circular:

12 June 2006

The Directors
REXCAPITAL Financial Holdings Limited
Suite 3401, 34/F, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Shenzhen Sinodata Technology Co., Ltd ("Sinodata") and its subsidiaries (hereinafter collectively referred to as the "Sinodata Group") for each of the three years ended 31 December 2003, 2004 and 2005 (the "Relevant Periods") for inclusion in the circular of REXCAPITAL Financial Holdings Limited (the "Company") dated 12 June 2006 (the "Circular") in connection with the proposed acquisition of 100% of the entire interest in Multi Glory Limited ("Multi Glory").

Sinodata was established with limited liability pursuant to the Company Law of the People's Republic of China ("PRC") on 13 March 1998. Its principal activities are the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC.

As at the date of this report, Multi Glory holds 90% equity interest in a Sino-foreign joint venture company, which in turn owns 45.436% equity interest in Sinodata.

All companies comprising the Sinodata Group have adopted 31 December as their financial year end date.

The Sinodata Group disposed of its 95% equity interest in 北京思樂信息技術有限公司, its 90% equity interest in 深圳市金帆軟件技術有限公司 and its 60% equity interest in 杭州思樂禾源數碼技術有限公司 in 16 October 2003, 5 April 2004 and 10 August 2005 respectively. Due to the reason as mentioned in the note 18 to the report, the results and cash flows of two disposed subsidiaries namely 北京思樂信息技術有限公司 and 杭州思樂禾源數碼技術有限公司 for the period from 1 January 2003 to their respective dates of disposal and where applicable, their assets and liabilities as at 31 December 2003, 31 December 2004 and 31 December 2005 have not been included in the financial information of the Sinodata Group for the Relevant Periods.

The results and cash flows of 深圳市金帆軟件技術有限公司 for the period from 15 April 2003 (the date of establishment) to its date of disposal and their assets and liabilities as at 31 December 2003 have been included in the financial information of the Sinodata Group for the Relevant Periods.

南京正見營銷諮詢有限公司(“南京正見”) is 80% owned by Sinodata Group, and was incorporated in 2004 with a registered capital of RMB500,000. The principal activity of 南京正見 is the provision of consultation and training services. No audited financial statements have been prepared for 南京正見. We have, however, reviewed all the relevant transactions undertaken by this company for the period from 2 June 2004 (the date of establishment) to 31 December 2005, and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company in this report.

The following financial statements prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC were not audited by Ting Ho Kwan & Chan for the years ended 31 December 2003, 2004 and 2005 but by other auditors as detailed below:

Name	**Financial year ended 31 December**	**Auditors**
Shenzhen Sinodata Technology Co., Ltd *(Note (i))*	2003	深圳市華鵬會計師事務所有限責任公司
	2004	深圳楚才會計師事務所
	2005	深圳中興信會計師事務所
深圳市金帆軟件技術有限公司 *(Note (ii))*	2003	深圳市華鵬會計師事務所有限責任公司
深圳市思樂數據設備服務有限公司 *(Note (iii))*	2004	深圳楚才會計師事務所
	2005	深圳中興信會計師事務所

Notes:

(i) The consolidated financial statements for the three years ended 31 December 2003, 2004 and 2005 under PRC GAAP as prepared by Sinodata had excluded 北京思樂信息技術有限公司 and 杭州思樂禾源數碼技術有限公司.

(ii) it was a subsidiary of Sinodata until April 2004 when it was disposed of.

(iii) it was incorporated in 2004.

For the purpose of this report, the directors of Sinodata have prepared the financial statements of Sinodata and the Sinodata Group for the Relevant Periods (“HKFRS financial statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of Sinodata are responsible for preparing the HKFRS financial statements which give a true and fair view.

In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the HKFRS financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The financial information set out in Sections I to II below (the "Financial Information") has been prepared based on the HKFRS financial statements.

We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. The directors of Sinodata and the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

北京思樂信息技術有限公司 and 杭州思樂禾源數碼技術有限公司 are disposed of during the Relevant Periods and accordingly all their financial statements for the Relevant Periods have been taken out by the acquirers for their retention. As a result, Sinodata's management has not been able to gather sufficient information to incorporate their results, cash flows, assets and liabilities into HKFRS financial statements. As a consequence, we are unable to quantify the effect on the departure from the requirements of HKAS 27 "Consolidated and Separate Financial Statements".

In our opinion, except for the possible effect of the circumstances referred to above in respect of 北京思樂信息技術有限公司 and 杭州思樂禾源數碼技術有限公司, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information prepared on the basis set out in Note 2.1 of Section II below, gives a true and fair view of the state of affairs of Sinodata and the Sinodata Group as at 31 December 2003, 2004 and 2005, and of the results and cash flows of the Sinodata Group for the Relevant Periods.

I FINANCIAL INFORMATION

(a) Consolidated income statements

		Year ended 31 December		
		2003	**2004**	**2005**
	Note	*RMB*	*RMB*	*RMB*
Continuing operations:				
Sales	*5*	33,226,218	58,448,557	77,624,509
Cost of sales		(8,843,775)	(23,132,888)	(35,347,015)
Gross profit		24,382,443	35,315,669	42,277,494
Other income and gains, net	*6*	3,503,948	1,654,430	620,714
Selling and distribution expenses		(6,467,912)	(8,405,968)	(8,808,142)
General and administrative expenses		(9,276,384)	(9,578,432)	(12,490,750)
Other operating expenses		(10,000)	(3,210,239)	(198,309)
Operating profit		12,132,095	15,775,460	21,401,007
Finance costs	*7*	(198,924)	(24,600)	–
Profit before taxation	*8*	11,933,171	15,750,860	21,401,007
Income tax expense	*11*	(579,690)	(302,312)	(646,245)
Profit for the year from continuing operations		11,353,481	15,448,548	20,754,762
Discontinued operations:				
(Loss)/profit for the year from discontinued operations	*32*	(17,796)	108,653	–
Profit for the year		11,335,685	15,557,201	20,754,762
Attributable to:				
Equity holders of Sinodata	*12*	11,337,465	14,148,090	19,728,248
Minority interests		(1,780)	1,409,111	1,026,514
		11,335,685	15,557,201	20,754,762
Dividends	*13*	10,000,000	10,000,000	18,000,000

(b) Consolidated balance sheets

		At 31 December		
		2003	**2004**	**2005**
	Note	*RMB*	*RMB*	*RMB*
Non-current assets				
Property, plant and equipment	*14*	14,552,981	24,704,680	24,355,310
Leasehold land and land use rights	*15*	1,414,460	1,372,237	1,330,014
Intangible assets	*16*	1,911,667	1,539,524	1,157,778
Subsidiary not consolidated	*18*	3,000,000	3,000,000	–
Available-for-sale financial assets	*19*	2,000,000	2,000,000	–
		22,879,108	32,616,441	26,843,102
Current assets				
Leasehold land and land use rights	*15*	42,223	42,223	42,223
Inventories	*20*	19,979,931	29,438,842	35,475,977
Available-for-sale financial assets	*19*	–	–	6,000,000
Trade receivables	*21*	23,329,421	23,817,633	25,765,436
Prepayments and other receivables		18,356,860	25,439,834	17,112,061
Amounts due from investee companies	*22*	60,000	940,000	–
Amounts due from shareholders	*23*	5,100,000	5,106,608	5,052,308
Prepaid income tax		–	729,823	729,823
Cash and cash equivalents	*24*	23,865,184	10,897,693	15,467,599
		90,733,619	96,412,656	105,645,427
Total assets		113,612,727	129,029,097	132,488,529
Equity				
Capital and reserves attributable to the equity holders of Sinodata				
Share capital	*25*	32,000,000	32,000,000	32,000,000
Reserves	*26*	73,149,983	77,298,073	87,026,321
		105,149,983	109,298,073	119,026,321
Minority interests		998,220	616,474	1,642,988
Total equity		106,148,203	109,914,547	120,669,309
Current liabilities				
Trade payables	*27*	6,080,176	8,250,751	10,064,633
Accruals and other payables		1,140,178	2,696,487	1,111,068
Amount due to a related company		–	6,865,000	–
Dividend payable to minority shareholders		–	1,000,000	–
Current income tax liabilities		244,170	302,312	643,519
Total liabilities		7,464,524	19,114,550	11,819,220
Total equity and liabilities		113,612,727	129,029,097	132,488,529

(c) Balance sheets

		At 31 December		
		2003	**2004**	**2005**
	Note	*RMB*	*RMB*	*RMB*
Non-current assets				
Property, plant and equipment	*14*	14,552,981	24,570,627	24,231,281
Leasehold land and land use rights	*15*	1,414,460	1,372,237	1,330,014
Intangible assets	*16*	1,911,667	1,539,524	1,157,778
Interests in subsidiaries	*17*	12,000,000	4,800,000	(1,468,269)
Available-for-sale financial assets	*19*	2,000,000	2,000,000	–
		31,879,108	34,282,388	25,250,804
Current assets				
Leasehold land and land use rights	*15*	42,223	42,223	42,223
Inventories	*20*	19,979,931	29,438,842	35,475,977
Available-for-sale financial assets	*19*	–	–	6,000,000
Trade receivables	*21*	23,329,421	19,614,721	23,368,472
Prepayments and other receivables		18,379,917	29,295,597	16,601,954
Amounts due from investee companies	*22*	60,000	940,000	–
Amounts due from shareholders	*23*	5,100,000	5,106,608	2,052,308
Cash and cash equivalents	*24*	13,814,231	5,343,026	9,321,169
		80,705,723	89,781,017	92,862,103
Total assets		112,584,831	124,063,405	118,112,907
Equity				
Capital and reserves attributable to the equity holders of Sinodata				
Share capital	*25*	32,000,000	32,000,000	32,000,000
Reserves	*26*	73,192,687	74,308,455	74,579,954
Total equity		105,192,687	106,308,455	106,579,954
Current liabilities				
Trade payables	*27*	6,080,176	8,250,751	10,064,633
Accruals and other payables		1,067,798	2,336,887	840,239
Amount due to a related company		–	6,865,000	–
Current income tax liabilities		244,170	302,312	628,081
Total liabilities		7,392,144	17,754,950	11,532,953
Total equity and liabilities		112,584,831	124,063,405	118,112,907

(d) Consolidated cash flow statements

		Year ended 31 December		
		2003	**2004**	**2005**
	Note	*RMB*	*RMB*	*RMB*
Operating activities				
Net cash inflows generated from operations	*29(a)*	24,824,085	13,295,405	19,326,320
Income tax paid		(510,106)	(973,994)	(305,038)
Net cash inflows from operating activities		24,313,979	12,321,411	19,021,282
Investing activities				
Purchases of property, plant & equipment		(12,474,464)	(13,612,400)	(5,623,015)
Purchases of intangible assets		(1,000,000)	(8,730)	–
Sales of property, plant & equipment		–	–	48,850
Partial receipt of proceeds from sale of subsidiaries not consolidated		6,000,000	–	480,000
Partial receipt of proceeds from sale of available-for-sale financial assets		–	–	600,000
Disposal of a subsidiary, net of cash received		–	(2,250,713)	–
Partial receipt of deferred consideration for disposal of a subsidiary		–	–	900,000
Interests received		183,688	307,541	142,789
Net cash outflows from investing activities		(7,290,776)	(15,564,302)	(3,451,376)
Financing activities				
Proceeds from bank loans raised	*29(c)*	12,000,000	–	–
Repayment of bank loans	*29(c)*	(28,000,000)	–	–
Contributions from minority shareholders		1,000,000	300,000	–
Dividends paid		(10,000,000)	(10,000,000)	(10,000,000)
Dividends paid to minority shareholders		–	–	(1,000,000)
Interest paid		(198,924)	(24,600)	–
Net cash outflows from financing activities		(25,198,924)	(9,724,600)	(11,000,000)
Net increase/(decrease) in cash and cash equivalents		(8,175,721)	(12,967,491)	4,569,906
Cash and cash equivalents at the beginning of the year		32,040,905	23,865,184	10,897,693
Cash and cash equivalents at the end of the year		23,865,184	10,897,693	15,467,599

(e) Consolidated statements of changes in equity

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Total equity at the beginning of the year	103,812,518	106,148,203	109,914,547
Profit for the year	11,335,685	15,557,201	20,754,762
Dividends approved and declared during the year			
– to equity holders of Sinodata	(10,000,000)	(10,000,000)	(10,000,000)
– to minority shareholders of a subsidiary	–	(1,000,000)	–
Capital injection by minority shareholders of subsidaries	1,000,000	300,000	–
Disposal of a subsidiary	–	(1,090,857)	–
Total equity at the end of the year	106,148,203	109,914,547	120,669,309

II NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities

Sinodata was established with limited liability pursuant to the Company Law of the People's Republic of China ("PRC") on 13 March 1998.

The address of Sinodata's registered office is Flats B, C & D, 3rd Floor, Block 7, Tianan Industrial Zone, Nanyou, Shenzhen, PRC.

Sinodata and its subsidiaries (together the "Sinodata Group") are engaged in the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC. One of the subsidiaries, 深圳市金帆軟件技術有限公司, was engaged in software development. Upon disposal of all the Sinodata's interest in 深圳市金帆軟件技術有限公司, 深圳市金帆軟件技術有限公司 became the discontinued operation of the Sinodata Group in 2004.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 Adoption of HKFRS

The Financial Information of Sinodata has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, has been applied in preparing these financial statements. This is the first set of Sinodata's financial statements prepared in accordance with HKFRS. They have been prepared under the historical cost convention. In 2004, the HKICPA issued a number of new or revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. Sinodata has adopted all these new HKFRSs in preparing the Financial Information throughout the Relevant Periods. The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Sinodata's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4 to this report.

2.1.2 New standards, amendments and interpretations effective beginning on or after 1 January 2006

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Sinodata Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Sinodata Group has not early adopted, as follows:

HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006) changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Sinodata Group believes that this amendment should not have a significant impact on the classification of financial instruments. The Sinodata Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra-group Transactions (effective from 1 January 2006) allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Sinodata Group's operations, as the Sinodata Group does not have any intra-group transactions that would qualify as a hedged item in the consolidated financial statements as at 31 December 2003, 2004 and 2005.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006) require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Sinodata Group.

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007) introduce new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Sinodata Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the additional disclosures will be mainly the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Sinodata Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006) requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Sinodata Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of Sinodata and all of its subsidiaries made up to 31 December. Subsidiaries are all entities (including special purpose entities) over which the Sinodata Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Sinodata Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Sinodata Group.

They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Sinodata Group. The cost of an acquisition is measured at 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 Sinodata 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 is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Sinodata Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator 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 Sinodata Group.

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

2.3 Segment reporting

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

No business or geographical segment analysis is presented as over 90% of the operations, assets and liabilities of the Sinodata Group during the Relevant Periods are related to the engagement in the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC, and all of the assets and customers are located in the PRC.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Sinodata Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in Renminbi, which is also Sinodata Group entities' functional 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 recognised in the income statement.

2.5 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Sinodata Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement 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 value (if there are any) over their estimated useful lives, as follows:

Buildings	30 years
Lottery machines	4 – 5 years
Machinery and equipment	5 – 10 years
Motor vehicles	10 years
Furniture, fittings and fixtures	5 – 10 years

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

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

2.6 Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Leasehold land and land use rights relating to buildings of the group are stated at cost and are amortised over the unexpired period of the lease on the straight-line basis to the income statement.

2.7 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five to ten years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, 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 amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 Financial assets

The Sinodata Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as "amounts due from investee companies", "amounts due from shareholders", "trade receivables" and "prepayments and other receivables" in the balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Sinodata Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Sinodata Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, including interest and dividend income, are presented in the income statement within "other income and gains, net" in the period in which they arise. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Sinodata Group's right to receive payments is established.

The Sinodata 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 that 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 recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Sinodata 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 reorganisation, 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 recognised in the income statement within "other operating expenses".

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.13 Trade and other payables

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.15 Deferred tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

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 consolidated financial statements. However, the deferred tax is not accounted for if it 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.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2.16 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised 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 leave are not recognised until the time of leave.

(ii) Pension obligations

The Sinodata Group does not provide a pension plan for its employees. The Sinodata Group made contributions to defined contribution retirement plans in the PRC and are recognised as an expense in the income statement as incurred. The Sinodata Group has no further payment obligations once the contributions have been paid.

(iii) Bonus plans

The Sinodata Group recognises a liability and an expense for bonuses on a discretionary basis after consideration of the profit attributable to Sinodata's members. The Sinodata Group recognises a provision where contractually obliged or where there is prior practice that has created a constructive obligation.

2.17 Provisions

Provisions are recognised when the Sinodata 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 the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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

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

2.18 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Sinodata Group's activities. Revenue excludes value added tax or sales taxes and is shown net of returns, rebates and discounts and after eliminated sales within the Sinodata Group. Revenue is recognised as follows:

(i) Sale of goods

Revenue from the sale of goods including lottery machines, other equipment and application software is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods; the related risks and rewards of ownership and collectibility of the related receivables is reasonably assured.

(ii) Sales of services

Sales of services including consultation service, maintenance service and IT support and development service are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Income from sharing of revenue

Income from sharing of revenue shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

(iv) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Sinodata Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.20 Operating lease

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 expensed in the income statement on a straight-line basis over the period of the lease.

2.21 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profit until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Dividends are recognised immediately as a liability when they are proposed and declared.

2.22 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Sinodata. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

A contingent asset is a possible asset 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 Sinodata.

A contingent asset is not recognised 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 recognised.

2.23 Related parties

A party is related to the Sinodata Group if:

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the Sinodata Group;
  (ii) has an interest in the Sinodata Group that gives its significant influence over the Sinodata Group; or
  (iii) has joint control over the Sinodata Group;
(b) the party is a jointly-controlled entity;
(c) the party is an associate;
(d) the party is a member of the key management personnel of the Sinodata or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Sinodata Group, or of any entity that is a related party of the Sinodata Group.

3 Financial risk management

3.1 Financial risk factors

The Sinodata Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow risk as more fully enumerated below. The Sinodata Group's overall risk management program considers the unpredictability of financial markets and seeks to minimise potential adverse effects on the Sinodata Group's financial performance.

(a) Credit risk

The Sinodata Group has no significant concentrations of credit risk as the customers of Sinodata are authorised operators mainly, local lotteries issuance centres of welfare lottery in China. Sinodata has policies in place to ensure that sales of products are made to customers on terms that are appropriate to their credit history. Additionally, the credit risk on liquid funds is limited because the counterparties are regulated banks in the PRC.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and working capital as well as the availability of funding through an adequate amount of committed credit facilities. The directors of Sinodata considered that the Sinodata Group has sufficient fund to meet its financial obligations and commitments in full as they fall due in the foreseeable future.

(c) Cash flow risk

While there are no significant concentrations of credit risk, the Sinodata Group may be exposed to delay in payments from customers and demand for payments from suppliers that may adversely affect overall cash flow. The Sinodata Group mitigates such risk by having a wide base of customers and suppliers.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Sinodata Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for impairment of trade receivables

Sinodata makes provision for impairment of trade receivables based on an assessment of the recoverability to trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(b) Write-down of obsolete and slow-moving inventories

Sinodata writes down obsolete and slow-moving inventories to net realisable value based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Write-downs are applied to inventories where events or changes in circumstances indicate that the inventories may be obsolete or slow-moving. The identification of obsolete or slow-moving inventories requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and charges in the period in which such estimate has been changed.

(c) Income taxes

the Sinodata Group is subject to PRC income tax only. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Sinodata Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

5 Turnover

The Sinodata Group are principally engaged in the development and production of proprietary lottery machines, related operating software system and networks for the welfare lottery industry in the PRC. Turnover represents revenues recognised from the sales of proprietary lottery machines and sharing certain percentage of lottery sales from its customers and related services during the Relevant Periods.

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Sales of lottery machines	6,114,872	18,103,419	39,119,017
Sales of other equipment	4,881,354	2,819,744	1,596,068
Sales of application software	4,938,205	3,038,735	3,691,966
Sharing of lottery sales	800,017	10,073,729	16,622,440
Consultation service fee	–	67,059	424,898
Maintenance service fee	15,414,283	18,833,876	15,943,915
IT support and development fee	653,000	5,480,808	222,869
Others	424,487	31,187	3,336
	33,226,218	58,448,557	77,624,509

6 Other income and gains, net

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Other income			
Interest income on bank deposits	183,688	228,641	76,389
Interest income on loan receivable	–	78,900	66,400
Government subsidy	943,657	1,346,889	463,209
Others	86,603	–	–
	1,213,948	1,654,430	605,998
Gains, net			
Gain on disposal of fixed assets, net	–	–	14,716
Gain on disposal of a subsidary not consolidated	2,290,000	–	–
	2,290,000	–	14,716
	3,503,948	1,654,430	620,714

7 Finance costs

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Interest expense on bank loans wholly repayable within 5 years	198,924	–	–
Interest on other borrowings wholly repayable within 5 years	–	24,600	–
	198,924	24,600	–

8 Profit before taxation

Sinodata Group's profit before taxation is stated after (crediting) and charging the following:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
(Gain)/loss on disposal of property, plant and equipment	–	6,612	(14,716)
Depreciation of property, plant and equipment *(Note 14)*	4,053,110	3,330,202	5,938,251
Auditors' remuneration	15,000	9,000	8,000
Amortisation of leasehold land and land use rights *(Note 15)*	42,223	42,223	42,223
Amortisation of intangible assets *(Note 16)*	363,333	380,873	381,746
Loss on disposal of a subsidiary	–	817,720	–
Provision for impairment of trade receivables	–	970,000	–
Staff costs	8,272,073	9,107,733	9,899,942
Operating lease	418,758	493,135	462,919

9 Employee benefits expenses (including directors' emoluments)

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Wages and salaries	6,756,905	7,541,110	9,070,824
Retirement benefits	1,279,410	1,155,763	564,081
Other employee benefits	235,758	410,860	265,037
	8,272,073	9,107,733	9,899,942

The remuneration of Directors and Senior management for the three years ended 31 December 2003, 2004 and 2005 is set out below:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Directors			
– Basic salaries, other allowances and benefits in kind	233,884	325,300	233,631
Senior management			
– Basic salaries, other allowances and benefits in kind	1,004,670	1,111,827	1,314,189

During the Relevant Periods, no directors of Sinodata waived or agreed to waive any emoluments. No emoluments have been paid to the directors of Sinodata as an inducement to join or upon joining the Sinodata Group, or as compensation for loss of office.

10 Retirement benefits

Pursuant to the relevant PRC regulations, the Sinodata Group is required to make contributions to defined contribution retirement schemes organised by the relevant Social Security Bureau in respect of the retirement benefits for the Sinodata Group's employees in the PRC.

Save as disclosed above, the Sinodata Group has no other obligation to make payments in respect of retirement benefits of the employees.

11 Income tax expense

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Current income tax for the year	579,690	302,312	646,245

Sinodata is a private limited liability company and is new technology enterprise located in Shenzhen and is eligible for application of tax holiday and concession which are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. The applicable income tax rate for the Sinodata is 15%. 2000 is the first profitable year of Sinodata and the income for the three years ended 31 December 2003, 2004 and 2005 was subject to 50% reduction.

深圳市思樂數據設備服務有限公司is a private limited liability company located in Shenzhen and is eligible for application of tax holiday and concession which are in the form of two years tax exemption from the date of commencement of operation. The applicable income tax rate for the subsidiary is 15%. 2004 is a first year of exemption and the income for the two years ended 31 December 2004 and 2005 was exempted.

All other subsidiaries are private limited liability companies established in the PRC. The applicable income tax rate for these subsidiaries is 33%.

The tax on the Sinodata Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of 15% is as follows:

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Profit before taxation	11,933,171	15,750,860	21,401,007
Calculated at a tax rate of 15% on profit before taxation	1,789,976	2,362,629	3,210,151
Tax effect of income not taxable for tax purpose	(782,809)	(85,981)	(495,725)
Tax effect of expenses not deductible for tax purpose	152,213	323,390	243,398
Effect of tax exemptions granted	(579,690)	(2,297,726)	(2,311,579)
	579,690	302,312	646,245

As at 31 December 2003, 2004 and 2005, there was no material unprovided deferred taxation.

12 Profit attributable to equity holders of Sinodata

Profit attributable to equity holders of Sinodata for the three years ended 31 December 2003, 2004 and 2005 is dealt with in the financial statements of Sinodata to the extent of approximately RMB11,380,169, RMB11,115,768 & RMB10,271,499 respectively.

13 Dividends

Final dividend payments of RMB10,000,000, RMB10,000,000 and RMB18,000,000 were proposed on 16 January 2004, 20 January 2005 and 27 February 2006 respectively. These financial statements do not reflect final dividend proposed as dividend payable as at the balance sheet date.

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Final dividend proposed after the balance sheet date	10,000,000	10,000,000	18,000,000
	10,000,000	10,000,000	18,000,000

14 Property, plant and equipment

(a) Sinodata Group

	Buildings	Leasehold improvements	Lottery machines	Furniture, fixtures and equipment	Plant and machineries	Motor vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost							
At 31.12.2002	3,460,300	–	–	3,245,104	227,686	871,000	7,804,090
Additions	–	–	11,158,121	128,905	932,438	255,000	12,474,464
At 31.12.2003	3,460,300	–	11,158,121	3,374,009	1,160,124	1,126,000	20,278,554
Accumulated depreciation							
At 31.12.2002	173,015	–	–	1,084,164	28,618	386,666	1,672,463
Charge for the year	115,343	–	2,923,146	591,402	212,362	210,857	4,053,110
At 31.12.2003	288,358	–	2,923,146	1,675,566	240,980	597,523	5,725,573
Net book value							
At 31.12.2003	3,171,942	–	8,234,975	1,698,443	919,144	528,477	14,552,981
At 31.12.2002	3,287,285	–	–	2,160,940	199,068	484,334	6,131,627

	Buildings	Leasehold improvements	Lottery machines	Furniture, fixtures and equipment	Plant and machineries	Motor vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost							
At 31.12.2003	3,460,300	–	11,158,121	3,374,009	1,160,124	1,126,000	20,278,554
Additions	–	–	12,395,370	40,405	627,663	548,962	13,612,400
Disposals	–	–	–	(37,250)	–	–	(37,250)
Disposal of subsidiary	–	–	–	(141,449)	–	–	(141,449)
At 31.12.2004	3,460,300	–	23,553,491	3,235,715	1,787,787	1,674,962	33,712,255
Accumulated depreciation							
At 31.12.2003	288,358	–	2,923,146	1,675,566	240,980	597,523	5,725,573
Charge for the year	115,343	–	2,324,132	500,763	212,362	177,602	3,330,202
Written back on Disposals	–	–	–	(30,638)	–	–	(30,638)
Disposal of subsidiary	–	–	–	(17,562)	–	–	(17,562)
At 31.12.2004	403,701	–	5,247,278	2,128,129	453,342	775,125	9,007,575
Net book value							
At 31.12.2004	3,056,599	–	18,306,213	1,107,586	1,334,445	899,837	24,704,680
At 31.12.2003	3,171,942	–	8,234,975	1,698,443	919,144	528,477	14,552,981
Cost							
At 31.12.2004	3,460,300	–	23,553,491	3,235,715	1,787,787	1,674,962	33,712,255
Additions	–	362,600	888,416	1,737,616	2,342,000	292,383	5,623,015
Disposals	–	–	–	(83,812)	–	(251,000)	(334,812)
At 31.12.2005	3,460,300	362,600	24,441,907	4,889,519	4,129,787	1,716,345	39,000,458
Accumulated depreciation							
At 31.12.2004	403,701	–	5,247,278	2,128,129	453,342	775,125	9,007,575
Charge for the year	115,343	138,250	3,320,946	1,959,981	130,842	272,889	5,938,251
Written back on Disposals	–	–	–	(62,228)	–	(238,450)	(300,678)
At 31.12.2005	519,044	138,250	8,568,224	4,025,882	584,184	809,564	14,645,148
Net book value							
At 31.12.2005	2,941,256	224,350	15,873,683	863,637	3,545,603	906,781	24,355,310
At 31.12.2004	3,056,599	–	18,306,213	1,107,586	1,334,445	899,837	24,704,680

(b) Sinodata

	Buildings	Leasehold improvements	Lottery machines	Furniture, fixtures and equipment	Plant and machineries	Motor vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost							
At 31.12.2002	3,460,300	–	–	3,245,104	227,686	871,000	7,804,090
Additions	–	–	11,158,121	128,905	932,438	255,000	12,474,464
At 31.12.2003	3,460,300	–	11,158,121	3,374,009	1,160,124	1,126,000	20,278,554
Accumulated depreciation							
At 31.12.2002	173,015	–	–	1,084,164	28,618	386,666	1,672,463
Charge for the year	115,343	–	2,923,146	591,402	212,362	210,857	4,053,110
At 31.12.2003	288,358	–	2,923,146	1,675,566	240,980	597,523	5,725,573
Net book value							
At 31.12.2003	3,171,942	–	8,234,975	1,698,443	919,144	528,477	14,552,981
At 31.12.2002	3,287,285	–	–	2,160,940	199,068	484,334	6,131,627
Cost							
At 31.12.2003	3,460,300	–	11,158,121	3,374,009	1,160,124	1,126,000	20,278,554
Additions	–	–	12,395,370	–	627,663	548,962	13,571,995
Disposals	–	–	–	(383,437)	–	–	(383,437)
At 31.12.2004	3,460,300	–	23,553,491	2,990,572	1,787,787	1,674,962	33,467,112
Accumulated depreciation							
At 31.12.2003	288,358	–	2,923,146	1,675,566	240,980	597,523	5,725,573
Charge for the year	115,343	–	2,324,132	372,111	212,362	177,602	3,210,550
Written back on Disposals	–	–	–	(30,638)	–	–	(30,638)
At 31.12.2004	403,701	–	5,247,278	2,017,039	453,342	775,125	8,896,485
Net book value							
At 31.12.2004	3,056,599	–	18,306,213	973,533	1,334,445	899,837	24,570,627
At 31.12.2003	3,171,942	–	8,234,975	1,698,443	919,144	528,477	14,552,981

	Buildings	Leasehold improvements	Lottery machines	Furniture, fixtures and equipment	Plant and machineries	Motor vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost							
At 31.12.2004	3,460,300	–	23,553,491	2,990,572	1,787,787	1,674,962	33,467,112
Additions	–	362,600	888,416	1,704,066	2,342,000	292,383	5,589,465
Disposals	–	–	–	(83,812)	–	(251,000)	(334,812)
At 31.12.2005	3,460,300	362,600	24,441,907	4,610,826	4,129,787	1,716,345	38,721,765
Accumulated depreciation							
At 31.12.2004	403,701	–	5,247,278	2,017,039	453,342	775,125	8,896,485
Charge for the year	115,343	138,250	3,320,946	1,916,407	130,842	272,889	5,894,677
Written back on Disposals	–	–	–	(62,228)	–	(238,450)	(300,678)
At 31.12.2005	519,044	138,250	8,568,224	3,871,218	584,184	809,564	14,490,484
Net book value							
At 31.12.2005	2,941,256	224,350	15,873,683	739,608	3,545,603	906,781	24,231,281
At 31.12.2004	3,056,599	–	18,306,213	973,533	1,334,445	899,837	24,570,627

15 Leasehold land and land use rights – Sinodata Group and Sinodata

	2003	2004	2005
	RMB	*RMB*	*RMB*
Cost	1,562,240	1,562,240	1,562,240
Accumulated amortisation			
At beginning of the year	63,334	105,557	147,780
Amortisation for the year	42,223	42,223	42,223
At end of the year	105,557	147,780	190,003
Net book value			
At end of the year	1,456,683	1,414,460	1,372,237
Portion classified as current assets	(42,223)	(42,223)	(42,223)
Long term portion	1,414,460	1,372,237	1,330,014

The Sinodata Group's interests in leasehold land and land use rights represent prepaid operating lease payments in the PRC held on leases for 50 years.

16 Intangible assets - Sinodata Group and Sinodata

	Software
	RMB
Cost	
At 1 January 2003	1,800,000
Additions	1,000,000
At 31 December 2003	2,800,000
Additions	8,730
At 31 December 2004 and 2005	2,808,730
Accumulated amortisation	
At 1 January 2003	525,000
Amortisation	363,333
At 31 December 2003	888,333
Amortisation	380,873
At 31 December 2004	1,269,206
Amortisation	381,746
At 31 December 2005	1,650,952
Net book amount	
At 31 December 2003	1,911,667
At 31 December 2004	1,539,524
At 31 December 2005	1,157,778

The intangible assets are amortised over their estimated useful lives of 5 to 10 years.

All amortisation charges were included in cost of sales for each of the years ended 31 December 2003, 2004 and 2005.

17 Interests in subsidiaries – Sinodata

	2003	2004	2005
	RMB	*RMB*	*RMB*
Paid-in capital, at cost	12,000,000	4,800,000	1,800,000
Amount due to a subsidiary	–	–	(3,268,269)
	12,000,000	4,800,000	(1,468,269)

Amount due to a subsidiary is unsecured, interest free and has no fixed term of repayment.

Sinodata made capital contribution of approximately RMB9,000,000 and RMB1,800,000 to set up two subsidiaries in 2003 and 2004 respectively and disposed of three subsidiaries during the Relevant Periods.

Particulars of the principal subsidiaries of Sinodata as at the date of this report are as follows:

Name	Place of establishment and kind of legal entities	Principal activities and place of operation	Registered and paid-in capital	Interest held Directly	Interest held Indirectly
深圳市思樂數據設備服務有限公司	PRC, limited liability company	provision of maintenance service for lottery machines in the PRC	RMB2,000,000	90%	–
南京正見營銷諮詢有限公司	PRC, limited liability company	provision of consultation service in the PRC	RMB500,000	–	80%

18 Subsidiary not consolidated – Sinodata Group

The subsidiary not consolidated as at 31 December 2003 and 2004 represents Sinodata's investment in 60% equity interest in 杭州思樂禾源數碼技術有限公司 ("杭州思樂"), which was invested by Sinodata before 2003 and disposed of in 2005. 杭州思樂 was engaged in selling of automatic teller machines in the PRC.

During 2003, Sinodata disposed of its 95% equity interest in 北京思樂信息技術有限公司 ("北京思樂"), 北京思樂 was engaged in providing consultancy service on information technology in the PRC.

As no sufficient records has been kept for 杭州思樂 and 北京思樂, the assets, liabilities and results of these disposed subsidiaries have not been incorporated into the consolidated financial information of Sinodata for the Relevant periods.

According to the information provided by the management of Sinodata, both companies operated in other separate lines of business which were differed from the remaining companies of Sinodata Group in continuing operation. In addition, there were no significant transactions between each of 杭州思樂 and 北京思樂 and the other companies of the Sinodata Group.

19 Available-for-sale financial assets – Sinodata Group and Sinodata

	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Unlisted equity investments established in the PRC			
At 1 January	2,000,000	2,000,000	2,000,000
Additions	–	–	6,000,000
Disposals	–	–	(2,000,000)
At 31 December	2,000,000	2,000,000	6,000,000
Classified as:			
Current asset	–	–	6,000,000
Non-current asset	2,000,000	2,000,000	–
	2,000,000	2,000,000	6,000,000

In June 2005, Sinodata acquired 30% equity interest in 北京順通典當有限責任公司 ("北京順通") at a consideration of RMB6,000,000 for settlement of amounts due from two non-trade debtors. In the opinion of the directors of Sinodata, Sinodata has no significant influence over 北京順通 and the investment was held with intention for subsequent disposal, therefore this investment was shown as current asset in 2005.

In March 2006, Sinodata disposed of the entire interest in 北京順通 at a consideration of RMB6,000,000. The consideration will be settled in August 2006.

20 Inventories – Sinodata Group and Sinodata

	2003	2004	2005
	RMB	*RMB*	*RMB*
Raw materials	18,457,602	25,351,119	25,890,259
Work-in-progress	1,031,379	82,789	1,496,889
Finished goods	1,473,009	4,986,993	9,070,888
	20,961,990	30,420,901	36,458,036
Less: write-down of obsolete and slow-moving inventories	(982,059)	(982,059)	(982,059)
	19,979,931	29,438,842	35,475,977

21 Trade receivables

Sinodata Group

	2003	2004	2005
	RMB	*RMB*	*RMB*
Trade receivables	23,565,073	25,023,285	26,971,088
Less: provision for impairment of receivables	(235,652)	(1,205,652)	(1,205,652)
	23,329,421	23,817,633	25,765,436

Sinodata

	2003	2004	2005
	RMB	*RMB*	*RMB*
Trade receivables	23,565,073	20,820,373	24,574,124
Less: provision for impairment of receivables	(235,652)	(1,205,652)	(1,205,652)
	23,329,421	19,614,721	23,368,472

The majority of the Sinodata Group's sales are on credit with terms generally ranging from 30 to 60 days. The ageing analysis of trade receivables for the Relevant Periods is as follows:

Sinodata Group

	2003	2004	2005
	RMB	*RMB*	*RMB*
Current – 30 days	6,662,463	15,528,461	15,464,525
31 – 60 days	170,000	–	2,606,938
61 – 90 days	–	392,000	3,807,975
Over 90 days	16,732,610	9,102,824	5,091,650
	23,565,073	25,023,285	26,971,088

Sinodata

	2003	2004	2005
	RMB	*RMB*	*RMB*
Current – 30 days	6,662,463	11,653,549	15,094,499
31 – 60 days	170,000	–	585,000
61 – 90 days	–	72,000	3,807,975
Over 90 days	16,732,610	9,094,824	5,086,650
	23,565,073	20,820,373	24,574,124

There is no concentration of credit risk with respect to trade receivables as the Sinodata Group's customers are mainly the local lotteries issuance centres of welfare lottery dispersed in 13 Provinces in the PRC.

The Sinodata Group has recognised a loss of approximately RMB970,000 for the impairment of its trade receivables for the years ended 31 December 2004. The loss was included in other operating expenses in the consolidated income statement.

The carrying amounts of the trade receivables approximate to their fair values.

22 Amounts due from investee companies – Sinodata Group and Sinodata

Amounts due from investee companies are unsecured, interest-free and have no fixed terms of repayment. Upon disposal of investee companies in 2005, these amounts due by former investee companies were reclassified to other receivables.

23 Amounts due from shareholders

Sinodata Group

	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
(i) 深圳市思強實業發展有限公司			
At 1 January	5,100,000	5,100,000	2,079,008
Interest	–	51,300	–
Repayments	–	(3,072,292)	(26,700)
At 31 December	5,100,000	2,079,008	2,052,308
(ii) 國旅聯合股份有限公司			
At 1 January	–	3,000,000	3,027,600
Interest	–	27,600	66,400
Repayments (net)	–	–	(94,000)
At 31 December	–	3,027,600	3,000,000
Total	5,100,000	5,106,608	5,052,308

Sinodata

	2003	2004	2005
	RMB	*RMB*	*RMB*
(i) 深圳市思強實業發展有限公司			
At 1 January	5,100,000	5,100,000	2,079,008
Interest	–	51,300	–
Repayments	–	(3,072,292)	(26,700)
At 31 December	5,100,000	2,079,008	2,052,308
(ii) 國旅聯合股份有限公司			
At 1 January	–	3,000,000	3,027,600
Interest	–	27,600	66,400
Repayments	–	–	(3,094,000)
At 31 December	–	3,027,600	–
Total	5,100,000	5,106,608	2,052,308

These amounts are unsecured, have no fixed terms of repayment and interest-free except for two advances of RMB3,000,000 each bearing interest at the rate of 7.2% per annum.

24 Cash and cash equivalents – Sinodata Group and Sinodata

Cash and cash equivalents include only cash at banks and in hand.

25 Paid-in Capital

Registered and paid-in capital of Sinodata as at 31 December 2003, 2004 and 2005 are RMB32 million.

26 Reserves

(a) Sinodata Group

	Surplus reserve *RMB* *(note (i))*	Statutory public welfare fund *RMB* *(note (ii))*	Retained earnings *RMB*	Proposed final dividend *RMB*	Total *RMB*
At 1 January 2003	18,826,633	5,562,596	37,423,289	10,000,000	71,812,518
Profit for the year	–	–	11,337,465	–	11,337,465
2002 proposed final dividend paid	–	–	–	(10,000,000)	(10,000,000)
Proposed final dividend	–	–	(10,000,000)	10,000,000	–
At 31 December 2003	18,826,633	5,562,596	38,760,754	10,000,000	73,149,983
Profit for the year	–	–	14,148,090	–	14,148,090
2003 proposed final dividend paid	–	–	–	(10,000,000)	(10,000,000)
Proposed final dividend	–	–	(10,000,000)	10,000,000	–
Transfer to reserves	1,165,977	1,308,597	(2,474,574)	–	–
At 31 December 2004	19,992,610	6,871,193	40,434,270	10,000,000	77,298,073
Profit for the year	–	–	19,728,248	–	19,728,248
2004 proposed final dividend paid	–	–	–	(10,000,000)	(10,000,000)
Proposed final dividend	–	–	(18,000,000)	18,000,000	–
At 31 December 2005	19,992,610	6,871,193	42,162,518	18,000,000	87,026,321

(b) Sinodata

	Surplus reserve *RMB* *(note (i))*	Statutory public welfare fund *RMB* *(note (ii))*	Retained earnings *RMB*	Proposed final dividend *RMB*	Total *RMB*
At 1 January 2003	18,826,633	5,562,596	37,423,289	10,000,000	71,812,518
Profit for the year	–	–	11,380,169	–	11,380,169
2002 proposed final dividend paid	–	–	–	(10,000,000)	(10,000,000)
Proposed final dividend	–	–	(10,000,000)	10,000,000	–
At 31 December 2003	18,826,633	5,562,596	38,803,458	10,000,000	73,192,687
Profit for the year	–	–	11,115,768	–	11,115,768
2003 proposed final dividend paid	–	–	–	(10,000,000)	(10,000,000)
Proposed final dividend	–	–	(10,000,000)	10,000,000	–
Transfer to reserves	–	725,609	(725,609)	–	–
At 31 December 2004	18,826,633	6,288,205	39,193,617	10,000,000	74,308,455
Profit for the year	–	–	10,271,499	–	10,271,499
2004 proposed final dividend paid	–	–	–	(10,000,000)	(10,000,000)
Proposed final dividend	–	–	(18,000,000)	18,000,000	–
At 31 December 2005	18,826,633	6,288,205	31,465,116	18,000,000	74,579,954

Notes:

(i) According to the relevant rules and regulations in the PRC, the Sinodata and its subsidiaries are required to appropriate 10% of after-tax profit (after offsetting prior year losses) to the statutory surplus reserve, based on the PRC statutory financial statements prepared in accordance with Accounting Standard for Business Enterprises in the PRC, until the balance of the reserve reaches 50% of their respective registered capital. Thereafter, any further appropriations can be made at the directors' discretion. The surplus reserve can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on condition that the surplus reserve shall be maintained at a minimum of 25% of the registered capital after such issuance.

(ii) According to the relevant rules and regulations in the PRC, the Sinodata and its subsidiaries are required to transfer 5% of its after-tax profit (after offsetting prior year losses) to the statutory public welfare fund, based on the PRC statutory financial statements prepared in accordance with Accounting Standard for Business Enterprises in the PRC. This fund can only be utilised on capital items for the collective benefits of the employees of the Sinodata and its subsidiaries in the PRC. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

27 Trade payables – Sinodata Group and Sinodata

The ageing analysis of trade payables for the Relevant Periods is as follows:

	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Current – 30 days	4,656,470	5,141,396	6,901,772
31 – 60 days	68,458	759,954	2,099,489
61 – 90 days	204,762	270,564	962,092
Over 90 days	1,150,486	2,078,837	101,280
	6,080,176	8,250,751	10,064,633

28 Borrowings – Sinodata Group and Sinodata

Sinodata had fully repaid its short-term bank borrowings during 2003. The carrying amounts of short-term borrowings approximate to their fair values.

29 Notes to consolidated cash flow statements

(a) Reconciliation of profit for the year to net cash inflow generated from operations

	Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Profit for the year	11,335,685	15,557,201	20,754,762
Income tax expense	579,690	302,312	646,245
Depreciation of property, plant & equipment	4,053,110	3,330,202	5,938,251
Amortisation of intangible assets	363,333	380,873	381,746
Loss on disposal of a subsidiary	–	817,720	–
Gain on disposal of a subsidiary not consolidated	(2,290,000)	–	–
Amortisation of leasehold land and land use rights	42,223	42,223	42,223
Provision for impairment of trade receivables	–	970,000	–
(Gain)/loss on disposal of property, plant and quipment	–	6,612	(14,716)
Interest income	(183,688)	(307,541)	(142,789)
Interest expenses	198,924	24,600	–
Operating profit before working capital changes	14,099,277	21,124,202	27,605,722
Inventories	1,875,132	(9,458,910)	(6,037,136)
Trade receivables	431,476	(1,933,212)	(1,947,803)
Prepayments and other receivables	(106,135)	(6,309,970)	(389,387)
Amounts due from investee companies	–	(880,000)	12,160
Amounts due from shareholders	–	(6,608)	54,300
Trade payables	3,281,842	2,170,576	1,813,882
Accruals and other payables	5,242,493	1,724,327	(1,585,418)
Amount due to a related party	–	6,865,000	(200,000)
Net cash inflow generated from operations	24,824,085	13,295,405	19,326,320

(b) Major non-cash transactions

In June 2005, Sinodata acquired 30% equity interest in 北京順通典當有限責任公司 at a consideration of RMB6,000,000 for settlement of amounts due by two non-trade debtors. Details of the transaction has been set out in note 19.

(c) Analysis of changes in financing

	Short term bank borrowings Year ended 31 December		
	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
At 1 January	16,000,000	–	–
Inceptions	12,000,000	–	–
Repayments	(28,000,000)	–	–
At 31 December	–	–	–

30 Balances and transactions with related parties

During the Relevant Periods, details of the Sinodata Group's significant transactions with the following related parties, together with balances with them as at 31 December 2003, 2004 and 2005, are as follows:

	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Companies under common control:			
IT support and development fee received	–	4,700,000	–
Balance due from the group	–	6,865,000	–
Substantial shareholders:			
Interest expenses	–	24,600	–
Interest income	–	78,900	66,400
Balances due to the group	5,100,000	5,106,608	5,052,308

On 21 January 2005, 國旅聯合股份有限公司 ("國旅聯合") , which is a listed company established in the PRC, acquired additional 3% equity interest of Sinodata from another shareholder. Such acquisition increased 國旅聯合 ownership interest in Sinodata to 51%. At 31 December 2005, the Sinodata Group is controlled by 國旅聯合 which in the opinion of the directors of Sinodata is also the ultimate holding company of Sinodata.

31 Subsequent events

Other than those disclosed elsewhere in the financial statements, the Sinodata Group has the following significant subsequent event.

In March 2006, Shenzhen Le Cai Technology Limited acquired 45.36% of the equity interests of Sinodata from three shareholders of Sinodata including 21.12% from 國旅聯合.

32 Discontinued operations

In April 2004, Sinodata disposed of its interest in 深圳市金帆軟件技術有限公司 to an independent third party at a consideration of RMB9,000,000.

An analysis of the results of the discontinued operations is as follows:

	2003 *RMB*	**2004** *RMB*
Revenue	698,547	1,245,044
Expense	(716,343)	(318,671)
(Loss)/profit before tax of discontinued operations	(17,796)	926,373
Tax	–	–
(Loss)/profit after tax of discontinued operations	(17,796)	926,373
Pre-tax loss recognised on the realisation of assets of disposal group	–	(817,720)
Tax	–	–
After tax loss recognised on the realisation of assets of disposal group	–	(817,720)
(Loss)/profit for the year from discontinued operations	(17,796)	108,653

	2003	**2004**	**2005**
	RMB	*RMB*	*RMB*
Operating cash flows	189,202	419,755	–
Investing cash flows	(138,250)	(8,219,995)	–
Financing cash flows	1,000,000	–	–
Total cash flows	1,050,952	(7,800,240)	–

Property plant and equipment	123,887
Investments	200,000
Trade and other receivables	8,507,431
Cash at banks	2,250,713
Total assets	11,082,031
Trade and other payables	(173,454)
Minority interests	(1,090,857)
Net assets	9,817,720
Consideration	9,000,000
Net assets sold	(9,817,720)
Loss on disposal of discontinued operations	(817,720)
Consideration satisfied by:	
Cash received	–
Deferred consideration	9,000,000
	9,000,000
Cash received	–
Transfer out of cash at banks	(2,250,713)
Net cash outflow on disposal	(2,250,713)

The deferred consideration was settled by subsequent repayments of RMB900,000 and offsetting an advance of RMB6,665,000 due to the disposed subsidiary and assignment of the remaining debts of RMB1,435,000 to a new shareholder of the disposed subsidiary in 2005.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Sinodata or its subsidiaries comprising the Sinodata Group in respect of any period subsequent to 31 December 2005.

Yours faithfully,
Ting Ho Kwan & Chan
Certified Public Accountants (Practising)

Hong Kong, 12 June 2006

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three financial years ended 31 December 2005, 2004 and 2003, which is extracted from the annual reports of the Group for the relevant years. The auditors of the Company have given unqualified opinions on the financial statements for each of the three years ended 31 December 2005, 2004 and 2003.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December		
	2005	**2004**	**2003**
	HK$	*HK$*	*HK$*
Turnover	41,937,858	169,137,308	324,693,318
Other income	1,225,288	1,036,851	1,486,476
Other (losses)/gains, net	(6,473,277)	2,167,311	–
Cost of trading of listed securities	(3,009,600)	(91,978,376)	(262,695,391)
Commission expenses	(5,042,656)	(14,161,963)	(9,839,680)
Depreciation	(1,846,390)	(2,159,938)	(2,976,575)
Impairment losses for bad and doubtful debts	(18,140,997)	(95,623,513)	(6,000,000)
Staff costs	(19,004,618)	(17,955,225)	(11,989,806)
Unrealised loss on revaluation of other investments	–	–	(53,190)
Other operating expenses	(30,758,447)	(18,352,404)	(19,507,207)
Operating (loss)/profit	(41,112,839)	(67,889,949)	13,117,945
Finance costs	(12,838,986)	(13,929,970)	(7,108,775)
(Loss)/profit before taxation	(53,951,825)	(81,819,919)	6,009,170
Taxation	3,252,051	4,146,344	(1,978,214)
(Loss)/profit for the year attributable to equity holders of the Company	(50,699,774)	(77,673,575)	4,030,956
(Loss)/earnings per share	(1.69) cents	(2.59) cents	0.13 cents

CONSOLIDATED BALANCE SHEET

	As at 31 December		
	2005	**2004**	**2003**
	HK$	*HK$*	*HK$*
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	3,451,685	4,706,116	6,821,888
Intangible assets	–	–	1,292,253
Investment security	–	50,000	50,000
Other non-current assets	3,820,042	3,735,026	3,735,890
Deferred tax assets	7,609,481	4,357,430	211,086
	14,881,208	12,848,572	12,111,117
CURRENT ASSETS			
Trade receivables	291,018,286	334,420,776	357,548,182
Other debtors, deposits and prepayments	2,264,088	3,268,946	4,935,123
Financial assets at fair value through profit or loss	13,382,291	–	–
Other investments	–	22,928,294	34,560
Profits tax refundable	790,000	–	–
Cash and cash equivalents	27,181,323	73,927,970	89,627,353
	334,635,988	434,545,986	452,145,218
TOTAL ASSETS	349,517,196	447,394,558	464,256,335
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	30,000,000	30,000,000	30,000,000
Reserves	84,572,317	128,232,091	205,905,666
TOTAL EQUITY	114,572,317	158,232,091	235,905,666
LIABILITIES			
CURRENT LIABILITIES			
Trade payables	24,563,205	78,841,837	93,310,395
Other payables and accruals	4,802,237	4,642,320	6,983,806
Bank borrowings	205,579,437	205,678,310	128,056,468
	234,944,879	289,162,467	228,350,669
TOTAL LIABILITIES	234,944,879	289,162,467	228,350,669
TOTAL EQUITY AND LIABILITIES	349,517,196	447,394,558	464,256,335
Net current assets	99,691,109	145,383,519	223,794,549
Total assets less current liabilities	114,572,317	158,232,091	235,905,666

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2005 as extracted from the Company's 2005 annual report.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

		2005	2004
	Notes	*HK$*	*HK$*
Turnover	*6*	41,937,858	169,137,308
Other income	*6*	1,225,288	1,036,851
Other (losses)/gains, net	*6*	(6,473,277)	2,167,311
Cost of trading of listed securities		(3,009,600)	(91,978,376)
Commission expenses		(5,042,656)	(14,161,963)
Depreciation	*14*	(1,846,390)	(2,159,938)
Impairment losses for bad and doubtful debts		(18,140,997)	(95,623,513)
Staff costs	*7*	(19,004,618)	(17,955,225)
Other operating expenses		(30,758,447)	(18,352,404)
Operating loss		(41,112,839)	(67,889,949)
Finance costs	*8*	(12,838,986)	(13,929,970)
Loss before taxation	9	(53,951,825)	(81,819,919)
Taxation	*11*	3,252,051	4,146,344
Loss for the year attributable to equity holders of the Company	*13*	(50,699,774)	(77,673,575)
Loss per share	*13*	(1.69) cents	(2.59) cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 HK$	2004 HK$
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	14	3,451,685	4,706,116
Intangible assets	15	–	–
Investment security	17	–	50,000
Other non-current assets	18	3,820,042	3,735,026
Deferred tax assets	19	7,609,481	4,357,430
		14,881,208	12,848,572
CURRENT ASSETS			
Trade receivables	20	291,018,286	334,420,776
Other debtors, deposits and prepayments		2,264,088	3,268,946
Financial assets at fair value through profit or loss	21	13,382,291	–
Other investments	22	–	22,928,294
Profits tax refundable		790,000	–
Cash and cash equivalents	23	27,181,323	73,927,970
		334,635,988	434,545,986
TOTAL ASSETS		349,517,196	447,394,558
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	30,000,000	30,000,000
Reserves		84,572,317	128,232,091
TOTAL EQUITY		114,572,317	158,232,091
LIABILITIES			
CURRENT LIABILITIES			
Trade payables	26	24,563,205	78,841,837
Other payables and accruals		4,802,237	4,642,320
Bank borrowings	27	205,579,437	205,678,310
		234,944,879	289,162,467
TOTAL LIABILITIES		234,944,879	289,162,467
TOTAL EQUITY AND LIABILITIES		349,517,196	447,394,558
Net current assets		99,691,109	145,383,519
Total assets less current liabilities		114,572,317	158,232,091

BALANCE SHEET
At 31 December 2005

	Notes	**2005** *HK$*	**2004** *HK$*
NON CURRENT ASSETS			
Interests in subsidiaries	16	125,729,612	200,728,391
CURRENT ASSETS			
Other debtors and prepayments		–	75,135
Cash and cash equivalents	23	3,953	14,498
		3,953	89,633
TOTAL ASSETS		125,733,565	200,818,024
CAPITAL AND RESERVES			
Share capital	24	30,000,000	30,000,000
Reserves	28	84,503,930	169,731,816
TOTAL EQUITY		114,503,930	199,731,816
CURRENT LIABILITIES			
Bank overdraft (unsecured)		9,426,696	–
Other payables and accruals		1,802,939	1,086,208
TOTAL LIABILITIES		11,229,635	1,086,208
TOTAL EQUITY AND LIABILITIES		125,733,565	200,818,024
Net current liabilities		(11,225,682)	(996,575)
Total assets less current liabilities		114,503,930	199,731,816

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital	Capital reserve	Retained profit/ (Accumulated losses)	Special reserve	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2004	30,000,000	–	93,636,107	112,269,559	235,905,666
Loss for the year	–	–	(77,673,575)	–	(77,673,575)
At 31 December 2004	30,000,000	–	15,962,532	112,269,559	158,232,091
Loss for the year	–	–	(50,699,774)	–	(50,699,774)
Recognition of share option benefits at fair value	–	7,040,000	–	–	7,040,000
At 31 December 2005	30,000,000	7,040,000	(34,737,242)	112,269,559	114,572,317

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	**2005** *HK$*	**2004** *HK$*
OPERATING ACTIVITIES			
Loss for the year		(50,699,774)	(77,673,575)
Adjustments for:			
Taxation	*11*	(3,252,051)	(4,146,344)
Interest income	*6*	(27,832,068)	(42,450,138)
Interest expenses	*8*	12,838,986	13,644,219
Share options benefits recognised	*25*	7,040,000	–
Impairment losses for bad and doubtful debts		18,140,997	95,623,513
Depreciation	*14*	1,846,390	2,159,938
Amortisation of trading rights	*15*	–	1,292,253
Loss on disposal of property, plant and equipment	*9*	196,027	475,835
Gain on disposal of available-for-sale financial asset	*6*	(63,126)	–
Unrealised gain on revaluation of other investments	*6*	–	(2,167,311)
Unrealised fair value losses on financial assets at fair value through profit or loss	*6*	6,536,403	–
Changes in working capital:		(35,248,216)	(13,241,610)
Other non-current assets		(85,016)	864
Trade receivables		25,261,493	(72,496,107)
Other debtors, deposits and prepayments		1,004,858	1,666,177
Financial assets at fair value through profit or loss		(19,918,694)	–
Other investments		22,928,294	(20,726,423)
Bank balances – segregated accounts		43,181,534	(4,043,761)
Trade payables		(54,278,632)	(14,468,558)
Other payables and accruals		159,917	(2,341,486)
Net cash used in operations		(16,994,462)	(125,650,904)
Interest received		27,832,068	42,450,138
Interest paid		(12,838,986)	(13,644,219)
Taxation paid		(790,000)	–

	Notes	2005 HK$	2004 HK$
Net cash used in operating activities		(2,791,380)	(96,844,985)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(787,985)	(885,144)
Proceeds on disposal of property, plant and equipment		–	365,143
Proceeds on disposal of available-for-sale financial asset		113,125	–
Net cash used in investing activities		(674,860)	(520,001)
FINANCING ACTIVITY			
Proceeds from short term bank loan		–	1,000,000
Cash generated from financing activity		–	1,000,000
DECREASE IN CASH AND CASH EQUIVALENTS		(3,466,240)	(96,364,986)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(196,092,691)	(99,727,705)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*23*	(199,558,931)	(196,092,691)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. CORPORATE INFORMATION

The Company was domiciled and incorporated in Bermuda as an exempted Company with limited liability. The principal place of business of the Company is located at 34/F, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparing for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group in Hong Kong on 15 August 2000 and its shares were listed on the Main Board of the Stock Exchange with effect from 28 September 2000.

In the opinion of the Directors, King United Agents Limited and Kingly Profits Corporation, companies incorporated in the British Virgin Islands, are regarded respectively as the ultimate holding company and the immediate holding company of the Company.

The consolidated financial statements are presented in the Hong Kong dollars, which is the same as the functional currency of the Group.

During the year, the Company is an investment holding company and its subsidiaries are principally engaged in the provision of financial services including broking, securities margin financing, corporate finance and asset management, money lending and investment trading and holding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK(SIC)-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combination

The adoption of new/revised HKASs 1, 7, 8, 10, 16, 17, 18, 21, 24, 27, 33, 36, HK(SIC)-Int 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKASs 1, 7, 8, 10, 16, 17, 18, 27, 33, 36, HK(SIC)-Int 15 and HKFRS 3 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the entities has been re-evaluated based on the guidance to the revised standard. The Group has the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 December 2004 investments of the Group were classified into investment securities and other investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value, respectively, and any impairment losses on investment securities and other investments were recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet. In addition, all the investments as at 31 December 2004 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1 January 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained profits at 1 January 2005. However the adoption of HKAS 39 has had no material effect on the Group's results and equity.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

– investment security of the Group as at 31 December 2004 was redesignated into available-for-sale financial asset on 1 January 2005. The aggregate difference between the respective carrying value of the investment as at 31 December 2004 and the respective fair value at 1 January 2005 is insignificant and hence, no adjustment has been made against the retained profits at 1 January 2005;

– other investments of the Group as at 31 December 2004 were redesignated into financial assets at fair value through profit or loss on 1 January 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's other investments as at 31 December 2004 is the same as that for financial assets at fair value through profit or loss.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior years, no amount was recognised when employees (which term includes directors) were granted share options over shares in the Group. If the employees choose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained profits.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

No adjustments to the opening balances as at 1 January 2004 are required as no options existed at that time which were unvested at 1 January 2005.

The adoption of HKAS 38 has resulted in a change in the accounting policy for intangible assets.

By 31 December 2004, intangible assets were amortised over their estimated useful lives. HKAS 38 Intangible Assets requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less any accumulated impairment losses. Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of its trading rights in the exchanges in Hong Kong on 1 January 2005 and concluded that the trading rights have indefinite useful lives. The Group has applied these transitional provisions prospectively and no adjustment was resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005.

The adoption of HKFRS 2 resulted in:

	2005	2004
	HK$	*HK$*
Increase in capital reserve	7,040,000	–
Increase in staff costs	1,005,715	–
Increase in other operating expenses	6,034,285	–

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective for the year ended 31 December 2005. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

Hong Kong Companies (Amendment)	Ordinance 2005
HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment) & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 3	Emission Rights
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

(b) Consolidation

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

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised 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.

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

(c) Segment reporting

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

(d) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement 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 (if, there are any) over their estimated useful lives as follows:

–	Leasehold improvements	16% – 50%
–	Furniture and fixtures	25%
–	Office equipment	25% – 33 $^1/_3$%

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(f)).

(e) Bank borrowings

Bank borrowings are recognised 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. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, 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 amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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).

(g) Intangible assets

On initial recognition, intangible assets acquired are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

(h) Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investment in securities, other than subsidiaries, as investment securities and other investments.

(i) Investment securities

Investment securities are stated at cost less any impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1 January 2005 onwards:

The Group classified its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade receivables in the balance sheet (Note 20).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from available-for-sale financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, 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 issuer's specific circumstances.

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 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 recognised in the income statement – is removed from equity and recognised in the income statement even though such financial assets have not been derecognised. Impairment losses recognised in the income statement on such equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised 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. 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 recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank borrowings in current liabilities on the balance sheet.

(k) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

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. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

(l) Employee benefits

(i) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised 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 (for example, profitability and sales growth targets). 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 recognises the impact of the revision of original estimates, if any, in the income statement, 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.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(m) Provisions

Provisions are recognised 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 the amount has been reliably estimated.

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

(n) Revenue recognition

(i) Interest income

Interest income is recognised on a time proportion basis using the effective interest method when a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continue unwinding the discount and interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost recovery basis as condition warrants.

(ii) Commission income and handling fee income, asset management and advisory fee income

Income arising from broking, corporate finance and asset management is recognised when the relevant services are rendered and the amount can be reliably estimated and it is probable that it will be received.

(iii) Income from trading of listed securities

Income from trading of listed securities is recognised as revenue on a trade date basis.

(o) Turnover

Turnover represents commission income and handling fee income, interest income, income from trading of listed securities and asset management and advisory fee income.

(p) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight line basis over the period of the lease.

(q) Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

(1) controls, is controlled by, or is under common control with, the Group;

(2) has an interest in the Group that gives its significant influence over the Group; or

(3) has joint control over the Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is an associate;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(r) 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 financial statements are presented in Hong Kong dollars, which is the Group'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 recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the controls of the Group. It can also be present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and fair value cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance as follows:

(i) Market risk

(1) Foreign exchange risks

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. The Group did not have significant exposure to foreign exchange risk during the year.

(2) Price risk

The Group is exposed to equity price risk through investments in equity securities. The Board of Directors manages the exposure by closely monitoring the portfolio of equity investments.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the clients' and foreign brokers' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible to compile the credit and risk management policies, to approve credit limits and determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount for each individual account receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Directors of the Group consider that the Group's credit risk is effectively controlled and significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of clients and foreign brokers.

(iii) Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with Clearing House or brokers and clients. To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

(iv) Cash flow and fair value interest rate risks

Most of the bank borrowings that are collateralised by margin clients' securities carry interest at variable rate which can mitigate the cash flow interest rate risk. Certain of the bank borrowings carry fixed-rate interest. To mitigate the fair value interest rate risk, the Group entered into interest rate swap to hedge against its exposures to changes in fair values of these borrowings.

(b) 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 price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustment of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment losses for bad and doubtful debts

The policy for impairment losses of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

(ii) Income taxes

As at 31 December 2005, a deferred tax asset of HK$3,689,481 in relation to unused tax losses has been recognised in the Group's consolidated balance sheet. No deferred tax asset was recognised in the Group's consolidated balance sheet in relation to the remaining unused tax losses of approximately HK$74,650,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. SEGMENT INFORMATION

Business Segments

The Group is principally organised into five main operating divisions, namely broking, securities margin financing, corporate finance and asset management, money lending and investment trading and holding. These divisions are the basis on which the Group reports its primary segment information. There are no sales or other transactions between the business segments during the current and prior years.

(i) Turnover and loss attributed to the business segments for the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
TURNOVER		
Broking	12,778	32,343
Securities margin financing	14,270	21,899
Corporate finance and asset management	1,202	2,407
Money lending	13,071	20,533
Investment trading and holding	617	91,955
	41,938	169,137
SEGMENT RESULTS		
Broking	(24,586)	(14,683)
Securities margin financing	7,904	(39,201)
Corporate finance and asset management	(1,283)	(903)
Money lending	(16,171)	(23,487)
Investment trading and holding	(9,273)	(95)
	(43,409)	(78,369)
NET UNALLOCATED EXPENSES	(10,543)	(3,451)
LOSS BEFORE TAXATION	(53,952)	(81,820)
TAXATION	3,252	4,146
LOSS FOR THE YEAR	(50,700)	(77,674)

(ii) Assets and liabilities analysed by business segments are as follows:

	2005	2004
	HK$'000	*HK$'000*
ASSETS		
Broking	35,257	100,597
Securities margin financing	43,745	127,276
Corporate finance and asset management	371	431
Money lending	250,050	185,733
Investment trading and holding	18,402	31,599
TOTAL SEGMENT ASSETS	347,825	445,636
UNALLOCATED ASSETS	1,692	1,758
TOTAL ASSETS	349,517	447,394
LIABILITIES		
Broking	20,862	63,536
Securities margin financing	24,879	114,333
Corporate finance and asset management	152	119
Money lending	177,427	110,037
Investment trading and holding	9,427	–
TOTAL SEGMENT LIABILITIES	232,747	288,025
UNALLOCATED LIABILITIES	2,197	1,137
TOTAL LIABILITIES	234,944	289,162

(iii) Other information

	Depreciation and amortisation		Impairment losses for bad and doubtful debts		Capital expenditure	
	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Broking	1,836	3,319	1,600	5,000	788	885
Securities margin financing	–	–	4,141	50,000	–	–
Corporate finance and asset management	3	4	–	–	–	–
Money lending	–	–	12,400	40,624	–	–
Investment trading and holding	–	–	–	–	–	–
Unallocated	7	129	–	–	–	–
	1,846	3,452	18,141	95,624	788	885

Geographical Segment

The Group's principal markets are located in Hong Kong. For both 2005 and 2004, more than 90% of the Group's turnover and carrying amount of assets were respectively generated from and located in Hong Kong, and therefore no geographical segment information is presented.

6. TURNOVER, OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

An analysis of the Group's turnover, other income and other (losses)/gains, net is as follows:

	2005	2004
	HK$	*HK$*
Turnover		
Commission income and handling fee income	12,780,202	32,502,162
Interest income from:		
– Banks	266,623	10,983
– Margin clients	14,270,764	21,898,738
– Loan receivables	13,070,662	20,532,835
Income from trading of listed securities	350,200	91,944,480
Asset management and advisory fee income	1,199,407	2,248,110
	41,937,858	169,137,308
Other income		
Other interest income	224,019	7,582
Other income	1,001,269	1,029,269
	1,225,288	1,036,851
Other (losses)/gains, net		
Unrealised gain on revaluation of other investments	–	2,167,311
Financial assets at fair value through profit or loss (unrealised) *(Note 21)*:		
– fair value losses (unrealised)	(6,536,403)	–
Gain on disposal of available-for-sale financial asset	63,126	–
	(6,473,277)	2,167,311
	36,689,869	172,341,470

7. STAFF COSTS

	2005	2004
	HK$	*HK$*
Salaries, allowances and benefits in kind	17,534,922	16,758,795
Bonuses	118,786	763,140
MPF contributions *(Note 29)*	345,195	433,290
Employee share option benefits *(Note 25)*	1,005,715	–
	19,004,618	17,955,225

8. FINANCE COSTS

	2005	2004
	HK$	*HK$*
Interest on bank loan and overdrafts	12,548,780	13,636,898
Interest on client payables with no fixed repayment terms	290,206	7,321
Borrowing costs	–	285,751
	12,838,986	13,929,970

9. LOSS BEFORE TAXATION

	2005	2004
	HK$	*HK$*
The Group's loss before taxation is stated after crediting and charging the following:		
Crediting:		
Recovery of bad debts previously written-off	348,128	–
Charging:		
Amortisation of intangible assets		
– trading rights	–	1,292,253
Auditors' remuneration		
– Current year	338,000	260,000
– Underprovision in prior year	30,000	–
Loss on disposal of property, plant and equipment	196,027	475,835
Operating lease rentals in respect of office premises and warehouse	4,165,840	3,930,925

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2005	**2004**
	HK$	*HK$*
Fees:		
Executive directors	80,000	23,825
Independent non-executive directors	240,000	168,743
	320,000	192,568
Other emoluments for executive directors:		
Salaries, housing, other allowances and benefits in kind	6,008,092	4,313,507
MPF contributions	24,000	16,000
	6,352,092	4,522,075

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2005	**2004**
	HK$	*HK$*
YUEN Wai Ho	80,000	58,579
ON Kien Quoc	80,000	23,825
CHOW Siu Ngor	80,000	17,268
HENG Kwoo Seng (resigned on 14.09.2004)	–	56,175
CHOY Hok Man, Constance (resigned on 29.02.2004)	–	12,896
	240,000	168,743

There were no other emoluments paid or payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total emoluments
	HK$	*HK$*	*HK$*	*HK$*
2005				
Executive directors:				
CHAN How Chung, Victor	–	3,605,740	12,000	3,617,740
LEE Huei Lin	–	2,402,352	12,000	2,414,352
BOO Chun Lon	80,000	–	–	80,000
	80,000	6,008,092	24,000	6,112,092
2004				
Executive directors:				
CHAN How Chung, Victor	–	2,707,783	8,000	2,715,783
LEE Huei Lin	–	1,605,724	8,000	1,613,724
BOO Chun Lon	23,825	–	–	23,825
	23,825	4,313,507	16,000	4,353,332

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

(c) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2004: two) were directors of the Company whose emoluments were included in the disclosures in (b) above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005	**2004**
	HK$	*HK$*
Salaries, allowances and benefits in kind	1,719,755	3,951,639
MPF contributions	36,000	36,000
	1,755,755	3,987,639

Their remuneration was within the following bands:

	2005 Number of employees	2004 Number of employees
Nil to HK$1,000,000	3	2
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	–	1
	3	3

11. TAXATION

No provision for Hong Kong profits tax is made in the financial statements as the Group has no estimated assessable profits for the year (2004: Nil).

The amount of taxation credited to the consolidated income statement represents:

	2005 *HK$*	2004 *HK$*
Current tax:		
Hong Kong profits tax	–	–
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	(3,252,051)	(4,146,344)
Taxation credit	(3,252,051)	(4,146,344)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the domestic taxation rates applicable to profits of the consolidated companies is as follows:

	2005	2004
	HK$	*HK$*
Loss before taxation	(53,951,825)	(81,819,919)
Calculated at a taxation rate of 17.5% (2004:17.5%)	(9,441,570)	(14,318,486)
Tax effect of income not subject to taxation	(70,208)	(14,557)
Tax effect of expenses not deductible for taxation purposes	3,061,956	839,934
Tax effect of utilisation of previously unrecognised tax losses	–	(595,256)
Tax effect of tax losses not recognised	2,004,385	187,337
Tax effect of temporary differences not recognised	1,193,386	9,754,684
Taxation credit	(3,252,051)	(4,146,344)

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$92,267,886 (2004: HK$33,326,674).

13. LOSS PER SHARE

The basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
	HK$	*HK$*
Loss attributable to equity holders of the Company	50,699,774	77,673,575
Weighted average number of ordinary shares in issue	3,000,000,000	3,000,000,000
Basic loss per share	1.69 cents	2.59 cents

Diluted loss per share for the years ended 31 December 2005 and 2004 has not been shown as the options outstanding during these years had an anti-diluted effect on the basic loss per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements	Furniture and fixtures	Office equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost				
At 1 January 2004	6,448,998	1,105,812	11,252,707	18,807,517
Additions	547,790	100,730	236,624	885,144
Disposal	(1,754,907)	–	–	(1,754,907)
At 31 December 2004	5,241,881	1,206,542	11,489,331	17,937,754
Additions	663,035	23,190	101,760	787,985
Disposal	(480,730)	(16,680)	(3,800)	(501,210)
At 31 December 2005	5,424,186	1,213,052	11,587,291	18,224,529
Accumulated depreciation				
At 1 January 2004	1,767,170	434,066	9,784,393	11,985,629
Provided for the year	1,011,890	259,119	888,929	2,159,938
Written back on disposal	(913,929)	–	–	(913,929)
At 31 December 2004	1,865,131	693,185	10,673,322	13,231,638
Provided for the year	1,071,948	264,962	509,480	1,846,390
Written back on disposals	(296,329)	(6,635)	(2,220)	(305,184)
At 31 December 2005	2,640,750	951,512	11,180,582	14,772,844
Net book value				
At 31 December 2005	2,783,436	261,540	406,709	3,451,685
At 31 December 2004	3,376,750	513,357	816,009	4,706,116

The Company

The Company has no property, plant and equipment as at 31 December 2005 (2004: Nil).

15. INTANGIBLE ASSETS

The Group

	Three trading rights in the Stock Exchange	One trading right in the Hong Kong Futures Exchange Limited	Total
	HK$	*HK$*	*HK$*
Cost			
At 1 January 2004 and 31 December 2004	4,042,800	149,600	4,192,400
Elimination of accumulated amortisation upon the application of HKAS 38	4,042,800	149,600	4,192,400
At 31 December 2005	–	–	–
Accumulated amortisation			
At 1 January 2004	2,791,272	108,875	2,900,147
Provided for the year	1,251,528	40,725	1,292,253
At 31 December 2004	4,042,800	149,600	4,192,400
Elimination of accumulated amortisation upon the application of HKAS 38	4,042,800	149,600	4,192,400
At 31 December 2005	–	–	–
Net book value			
At 31 December 2005	–	–	–
At 31 December 2004	–	–	–

Until 31 December 2004, the trading rights had been amortised over their estimated useful lives based on Directors' assessments. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of trading rights on 1 January 2005 and concluded that the trading rights have indefinite useful lives. The Group has applied the revised useful lives prospectively and carried the trading rights at its carrying amount at 31 December 2004 of nil value.

16. INTERESTS IN SUBSIDIARIES

	2005	2004
	HK$	*HK$*
Unlisted shares, at cost	286,338,117	286,338,117
Impairment losses	(127,000,000)	(111,000,000)
	159,338,117	175,338,117
Amount due from a subsidiary	149,957,749	139,294,137
Impairment losses	(66,000,000)	–
	83,957,749	139,294,137
Amounts due to subsidiaries	(117,566,254)	(113,903,863)
	125,729,612	200,728,391

Amounts due from/(to) subsidiaries were unsecured, interest-free and have no fixed term of repayment.

Details of the Company's principal subsidiaries at 31 December 2005 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
REXCAPITAL Financial Group Limited	British Virgin Islands	Investment holding in Hong Kong	30,000,000 ordinary shares of HK$1 each	100%
REXCAPITAL Financial Management Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
REXCAPITAL Financial Investment Limited	Hong Kong	Investment holding in Hong Kong	25,000,000 ordinary shares of HK$1 each	100%
REXCAPITAL Asset Management Limited	Hong Kong	Investment holding, provision of advisory and fund management services in Hong Kong	5,000,000 ordinary shares of HK$1 each	100%
REXCAPITAL Finance Limited	Hong Kong	Money lending and investment trading in Hong Kong	2,000,000 ordinary shares of HK$1 each	100%

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
REXCAPITAL Futures Limited	Hong Kong	Futures and commodities dealing in Hong Kong	25,000,000 ordinary shares of HK$1 each	100%
REXCAPITAL Securities Limited	Hong Kong	Securities dealing and margin financing in Hong Kong	150,000,000 ordinary shares of HK$1 each	100%
REXCAPITAL Realty Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
REXCAPITAL Corporate Services Limited	Hong Kong	Arrangement of leases for group companies in Hong Kong	100 ordinary shares of HK$1 each	100%
Ibrokers Company Limited	Hong Kong	Arrangement of leases for group companies in Hong Kong	2 ordinary shares of HK$1 each	100%

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company, which in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length.

17. INVESTMENT SECURITY

	The Group 2004 *HK$*
Equity security, at cost Listed investment in Hong Kong	50,000
Market value of listed investment	74,646

The listed investment was disposed of during the year.

18. OTHER NON-CURRENT ASSETS

Other non-current assets represent statutory and other deposits with various exchanges and clearing houses relating to securities and futures dealing businesses.

19. DEFERRED TAXATION

The Group

(i) Deferred tax assets recognised

	Tax losses *HK$*	Others *HK$*	Total *HK$*
At 1 January 2004	(211,086)	–	(211,086)
Credited to the consolidated income statement	(2,396,344)	(1,750,000)	(4,146,344)
At 31 December 2004	(2,607,430)	(1,750,000)	(4,357,430)
Credited to the consolidated income statement	(1,082,051)	(2,170,000)	(3,252,051)
At 31 December 2005	(3,689,481)	(3,920,000)	(7,609,481)

(ii) ***Deferred tax assets/(liabilities) have not been recognised in respect of the following items:***

	2005	2004
	HK$	*HK$*
Taxable temporary differences		
– accelerated tax depreciation	(157,471)	(292,560)
Deductible temporary differences		
– decelerated tax depreciation	1,007,587	1,020,751
– others	69,505,862	62,808,981
Tax losses	74,649,697	60,236,403
	145,005,675	123,773,575

The deductible temporary differences and tax losses do not expire under current tax legislation.

The Company

The Company has no temporary differences as at 31 December 2005 (2004: Nil).

20. TRADE RECEIVABLES

	The Group	
	2005	2004
	HK$	*HK$*
Margin client receivables, net	43,745,417	127,275,906
Other client receivables, net	4,464,569	7,659,835
Broker receivables	386,916	1,781,408
Amounts due from clearing houses	805,322	16,327,962
Loan receivables, net	234,097,149	175,471,635
Loan interest receivables, net	7,518,913	5,904,030
	291,018,286	334,420,776

Included in the Group’s trade receivables are the following foreign currencies:

	The Group	
	2005	2004
Indonesian Rapiah	3,892,335	3,892,335
Malaysian Ringgits	3,461	101,210
Singapore dollars	2,957	8,285

Margin client receivables are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities listed on the Stock Exchange of Hong Kong Limited (the "SEHK") with a market value of approximately HK$94,305,000 as at 31 December 2005 (2004: HK$311,000,000). No aged analysis is disclosed for margin client receivables as, in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement terms of other client receivables, broker receivables and amounts due from clearing houses are one to two days after the trade date. The age of these balances is within 30 days.

Included in the above client receivables as at 31 December 2005 are the accounts of associates of certain Directors of approximately HK$8,788,000 (2004: HK$7,781,000). The amounts due from the associates are of similar trading terms as the other client receivables. The balance was repaid subsequent to year end date.

Included in the above loan receivables as at 31 December 2005 is the account of an associate of certain Directors of approximately HK$2,640,000 (2004: HK$9,992,000). The amount due from the associate is of similar trading terms as the other loan receivables.

The remaining maturity of loan receivables as at 31 December 2005 is as follows:

	The Group	
	2005	**2004**
	HK$	*HK$*
Three months or less	124,089,838	53,361,420
One year or less but over three months	110,007,311	122,110,215
	234,097,149	175,471,635

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group
	2005
	HK$
Listed securities held for trading:	
Market value of equity securities listed in Hong Kong	13,382,291

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other (losses)/ gains in the income statement (Note 6).

22. OTHER INVESTMENTS

	The Group 2004 *HK$*
Listed securities:	
Market value of equity securities listed in Hong Kong	22,928,294

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank				
– general accounts	4,995,095	8,557,707	3,953	14,498
– segregated accounts	22,160,817	65,342,351	–	–
Cash in hand	25,411	27,912	–	–
	27,181,323	73,927,970	3,953	14,498

Included in the Group's cash and cash equivalents are the following foreign currencies:

	2005	2004
Japanese yen	162,000	162,000
US dollars	39,668	25,018
Singapore dollars	1,560	1,560
Malaysian Ringgits	60,964	19,125

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	The Group	
	2005	2004
	HK$	*HK$*
Cash in hand	25,411	27,912
Cash at bank		
– general account	4,995,095	8,557,707
Bank overdrafts *(Note 27)*	(204,579,437)	(204,678,310)
	(199,558,931)	(196,092,691)

24. SHARE CAPITAL

Authorised	**Ordinary shares of HK$0.01 each**	
	Number of shares	*HK$*
At 31 December 2004 and at 31 December 2005	20,000,000,000	200,000,000

Issued and fully paid	**Ordinary shares of HK$0.01 each**	
	Number of shares	*HK$*
At 31 December 2004 and at 31 December 2005	3,000,000,000	30,000,000

25. SHARE OPTION SCHEME

The Group's share option scheme was adopted by the Group on 22 November 2002 (the "Scheme") for the purpose of enabling the Group to grant share options to executives and employees of the Group and other persons who have made contributions to the Group as incentives and/or rewards for their contributions to the Group or its subsidiaries.

According to the Scheme, the Board may grant share options to the eligible participants as defined in the Scheme to subscribe for such number of shares as the Board may determine. Share options granted should be accepted within 30 days from the date of offer. Upon acceptance of the share options, the grantee shall pay HK$1.00 to the Group by way of consideration for the grant.

The exercise price of share options shall be determined by the Board, save that such price will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant, and (c) the nominal value of a share.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option scheme(s) of the Group must not exceed 10% of the issued share capital of the Group on the date of approval and adoption of the Scheme provided that the Group may at any time seek approval from its shareholders to refresh the limit to 10% of the shares in issue as at the date of approval by the shareholders in general meeting where such limit is refreshed. Share options previously granted under any share option scheme(s) of the Group (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised share options) will not be counted for the purpose of calculating the limit as refreshed.

The total number of shares issued and which may fall to be issued upon exercise of the share options granted under the Scheme and any other share option scheme(s) of the Group (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period up to and including the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Share options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Group's issued share capital on the date of grant or with a value in excess of HK$5 million must be approved in advance by the Group's shareholders.

The period during which share options may be exercised will be determined by the Board at its absolute discretion, save that no share options can be exercised more than 10 years after they have been granted. There is no general requirement that share options must be held for any minimum period before they can be exercised. The Scheme will expire on 22 November 2012.

The following table discloses movements in the Share Option Scheme:

During the year ended 31 December 2004:

				Number of share options			
Grantees	**Date of grant**	**Exercise price per share** *HK$*	**Exercisable period**	**Outstanding at 01.01.2004**	**Granted during the year**	**Lapsed during the year**	**Outstanding at 31.12.2004**
Employees	03.01.2004	0.138	03.01.2004-02.01.2014	–	90,000,000	(30,000,000)	60,000,000
Other eligible participants	03.01.2004	0.138	03.01.2004-02.01.2014	–	60,000,000	–	60,000,000
				–	150,000,000	(30,000,000)	120,000,000

During the year ended 31 December 2005:

				Number of share options			
Grantees	**Date of grant**	**Exercise price per share** *HK$*	**Exercisable period**	**Outstanding at 01.01.2005**	**Granted during the year**	**Lapsed during the year**	**Outstanding at 31.12.2005**
Employees	03.01.2004	0.138	03.01.2004-02.01.2014	60,000,000	–	(30,000,000)	30,000,000
	26.10.2005	0.102	26.10.2005-25.10.2015	–	30,000,000	–	30,000,000
Other eligible participants	03.01.2004	0.138	03.01.2004-02.01.2014	60,000,000	–	–	60,000,000
	26.10.2005	0.102	26.10.2005-25.10.2015	–	180,000,000	–	180,000,000
				120,000,000	210,000,000	(30,000,000)	300,000,000

(1) The closing price of the share immediately before the date of grant on 26 October 2005 was HK$0.086.

(2) The lapsed options were due to cessation of employment of participants with the Group.

(3) No option was cancelled during the year.

During the year, 210,000,000 (2004: 150,000,000) share options were granted under the share option scheme to grantees for an aggregate consideration of HK$7 (2004: HK$5).

The exercise in full of the outstanding 300,000,000 share options at 31 December 2005 would, under the present capital structure of the Company, result in the issue of 300,000,000 additional shares for a total cash consideration, before expenses, of approximately HK$33,840,000.

During the year ended 31 December 2005, options were granted on 26 October 2005 and are fully vested at the same date. The estimated fair values of the options granted on that date are HK$7,040,000. In applying HKFRS 2, the Group recognised these fair values as expense . The Group has not applied HKFRS 2 to share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions.

The fair value is calculated using the Black-Scholes pricing model. The weighted average inputs into the model were as follows:

	Share options granted on 26.10.2005
Share price	HK$0.102
Exercise price	HK$0.102
Expected volatility	80%
Expected option life (in years)	1.05
Risk-free-rate	3.81
Expected dividends	0%

The expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on the managements estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$7,040,000 (2004: Nil) in relation to share options granted by the Company, of which HK$1,005,715 are recorded in staff costs and HK$6,034,285 are recorded in other operating expenses.

26. TRADE PAYABLES

	The Group	
	2005	**2004**
	HK$	*HK$*
Margin client payables	6,056,484	18,550,425
Other client payables	18,506,721	60,177,437
Broker payables	–	113,975
	24,563,205	78,841,837

Included in the Group's trade payables are the following foreign currencies:

	2005	**2004**
Indonesian Rapiah	3,892,335	3,892,335
Malaysian Ringgits	59,095	58,500
Singapore dollars	2,807	1,790

Margin client payables and other client payables are repayable on demand and bear interest at prevailing market rates. No aged analysis is disclosed for margin client payables and other client payables as, in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing and broking.

The settlement terms of broker payables are one or two days after the trade date. The age of these balances is within 30 days.

27. BANK BORROWINGS

	The Group	
	2005	**2004**
	HK$	*HK$*
Bank overdrafts		
– secured *(Note 23)*	195,152,741	204,678,310
– unsecured *(Note 23)*	9,426,696	–
Bank loan, secured	1,000,000	1,000,000
	205,579,437	205,678,310

The carring amounts of all the borrowings are denominated in Hong Kong dollars.

The bank loan and overdrafts are repayable within one year or when the facility is withdrawn. These borrowings are used to finance the financing business of the Group.

At 31 December 2005, the Group's bank borrowings were secured by:

(a) corporate guarantees from the Company;

(b) marketable securities of the Group; and

(c) marketable securities of the Group's clients.

Bank overdrafts amounting to HK$204,579,437 (2004: HK$204,678,310) carry interest at either HIBOR or Prime rate. Bank loans amounting to HK$1,000,000 (2004: HK$1,000,000) are at HIBOR plus a spread. Interest rate is repriced every twelve months.

The effective interest rates on the Group's borrowings are also equal to contracted interest rates.

The Directors consider that the fair values of bank borrowings at the balance sheet date approximate to their carrying amounts.

28. RESERVES OF THE COMPANY

	Capital reserve	(Accumulated losses)/ retained profits	Contributed surplus	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2004	–	3,453,960	199,604,530	203,058,490
Loss for the year	–	(33,326,674)	–	(33,326,674)
At 31 December 2004	–	(29,872,714)	199,604,530	169,731,816
Loss for the year	–	(92,267,886)	–	(92,267,886)
Recognition of share option benefits at fair value	7,040,000	–	–	7,040,000
At 31 December 2005	7,040,000	(122,140,600)	199,604,530	84,503,930

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders as at the balance sheet date were as follows:

	2005	**2004**
	HK$	*HK$*
Contributed surplus	199,604,530	199,604,530
Accumulated losses	(122,140,600)	(29,872,714)
	77,463,930	169,731,816

29. RETIREMENT BENEFITS SCHEME

The Group operates the MPF for all qualifying employees. The retirement benefit costs charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

30. CONTINGENT LIABILITIES

The Group

At 31 December 2005, the Group has no significant contingent liabilities (2004: Nil).

The Company

The Company has issued unlimited corporate guarantees to banks to secure general facilities granted to two subsidiaries. The facilities utilised by the subsidiaries as at 31 December 2005 amounted to approximately HK$196,000,000 (2004: HK$206,000,000).

31. COMMITMENTS

The Group

At 31 December 2005, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	2005	**2004**
	HK$	*HK$*
Land and buildings		
Within one year	5,688,886	3,982,268
In the second to fifth year inclusive	6,591,999	9,368,991
	12,280,885	13,351,259

The Group leases office premises under operating leases. The leases run for an initial period of one to six years. The leases do not include any contingent rentals.

The Company

At 31 December 2005, the Company did not have any commitments under non-cancellable operating leases (2004: Nil).

Other than the operating lease commitments, the Group and the Company did not have any other capital commitments as at 31 December 2005 (2004: Nil).

32. TRANSACTIONS WITH RELATED PARTIES

(a) Details of the Group's significant transactions with the following related parties during the year are as follows:

	2005	**2004**
	HK$	*HK$*
Associates of Directors:		
Commission and interest income arising from futures and securities trading	1,047,947	2,031,815

In the opinion of the Directors, including the independent non-executive Directors, the above transactions were entered into in the Group's ordinary course of business and at terms agreed by both parties.

(b) On 12 January 2004, the Group entered into a conditional sale and purchase agreement with REXCAPITAL Group Limited (the "Purchaser"), a related company of which certain Directors of the Company were directors and one of these Directors was a beneficial shareholder, to dispose of the entire issued share capital of REXCAPITAL Financial Group Limited ("RFGL") for a total consideration of HK$229,000,000. As the Purchaser was not satisfied with the results of the due diligence conducted on RFGL and its subsidiaries, the above sale and purchase agreement was terminated on 6 May 2005.

(c) During both years, compensation of key management personnel represents Directors' remuneration as stated in note 10. The Directors' remuneration is determined by the remuneration committee having regard to the performance, responsibilities and experiences of individuals and market trends.

33. POST BALANCE SHEET EVENTS

(a) On 15 March 2006, RFGL entered into a Share Purchase Agreement with Magic Dynasty Limited ("the Vendor") under which RFGL has agreed to acquire the entire issued share capital of Multi Glory Limited ("the Acquisition"). The consideration payable for the Acquisition is HK$227,880,000 which is to be satisfied as to HK$152,880,000 in cash and as to HK$75,000,000 by the issue of the consideration shares at a price of HK$0.15 per share. Details of the proposed Acquisition are set out in the Company's announcement dated 22 March 2006. The transaction has not yet been completed up to the date of this report.

(b) On 23 March 2006, the Company, a placing agent and Kingly Profits Corporation ("the Vendor") entered into a placing agreement, pursuant to which the placing agent agreed to place, on a best efforts basis, up to an aggregate of 1,200,000,000 existing shares of HK$0.20 per share on behalf of the Vendor. On the same date, the Company entered into a subscription agreement with the Vendor for the Subscription of up to an aggregate of 1,200,000,000 new shares at the same price per share. Pursuant to the Subscription Agreement, the Vendor has conditionally agreed to subscribe for the subscription shares which are equivalent to the number of Placing Shares. It is intended as to approximately HK$152.88 million of the proceeds will be used to pay the consideration for the acquisition as mentioned in (a) above, and the remaining balance will be used for general working capital of the Group, including financing future working capital requirement of Multi Glory Limited upon completion of the Acquisition. Up to the date of this report, 600,000,000 new share have been issued to the Vendor pursuant to the terms of the Subscription Agreement.

34. COMPARATIVE AMOUNTS

As further explained in note 2(a) to the financial statements, due to the adoption of HKFRS during the current year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current year's presentation.

3. BUSINESS REVIEW OF THE GROUP

Set out below are the reproduction of the "Management Discussion and Analysis" section of the Group for the years ended 31 December 2005 and 31 December 2004 contained in the Company's annual reports for the corresponding years.

For the year ended 31 December 2005

BUSINESS REVIEW AND PROSPECTS

During the year, the Group was principally engaged in the provision of financial services, including money lending, investment trading and holding, broking, securities margin financing and asset management. In order to diversify business, the Group had also explored investment opportunities in China and other Asian areas.

Money Lending

Interest income from money lending accounted for 31% (2004: 12%) of the Group's turnover. The Group recorded a loss due to the prudent approach towards provision concerning money lending business. The Group will continue to adopt a prudent and conservative financing policy and stringent control on loan lending.

Investment Trading and Holding

Hong Kong experienced a static investment environment in the first half of 2005, dampened by rising interest rates and oil prices. The Group has slowed down its investment trading activities. The unrealized loss on securities amounted to HK$6,536,000. Nevertheless, market sentiment recovered stably in the second half. The Group is optimistic to see improvement in this business segment.

Broking and Securities Margin Financing

Turnover of the local stock market in 2005 grew by 13.7% as compared with 2004, reaching a record market turnover of HK$4,520.4 billion. However, the Group's performance in this segment was affected by keen competition in the industry as well as a sharp rise in rental and other operating costs. The Group made a strategic decision to close down two branches during the year. Turnover of the Group's broking business decreased 60% to HK$12,778,000, representing 30% of the total turnover. Turnover of the Group's securities margin financing business decreased 35% to HK$14,270,000 representing 34% of the total turnover.

Asset Management

Turnover from this segment accounted for 3% of the Group's total turnover. In line with the successful launch of several large-scale H-share IPOs and the first REIT, The Link, the Group's asset management business achieved solid investment returns during the year. In order to meet the investment interests of our clients, the Group terminated one of the funds during the year. Cited by inflow of funds (especially renowned hedge funds) in the local market, the growth momentum of this segment remains strong. Our investment team will continue to provide personalized and tailor-made services for our clients.

LOOKING AHEAD

The Group has been streamlining the operation and identifying suitable opportunities to enrich its business portfolio.

Subsequent to the year end in March 2006, the Group entered into an agreement to acquire Multi Glory Limited, which will hold a controlling stake in Shenzhen Sinodata Technology Co., Ltd. ("Sinodata"), for a total consideration of HK$227,880,000. Sinodata is one of the largest computer ticket lottery system and machine providers in China. Details of this transaction are set out in the Company's announcement dated 22 March 2006.

The acquisition will position the Group to capture the high growth potentials of this emerging market and strengthen the long-term profitability. The Group will keep on identifying potential investment opportunities, with a view to bring long-term favourable returns to our shareholders.

FINANCIAL REVIEW

Result

For the year ended 31 December 2005, the Group recorded a turnover of HK$41,938,000 (2004: HK$169,137,000), representing a decrease of 75%. The decrease in turnover was mainly due to the decrease in contribution from investment trading and holding activities. Turnover of this segment decreased by 99% to HK$617,000 for the year ended 31 December 2005 in comparison with last year (2004: HK$91,955,000).

Loss for the year was HK$50,700,000 (2004: loss of HK$77,674,000), representing a decrease of 35%. The loss per share was 1.69 cents (2004: 2.59 cents). The loss was improved as the Group imposed a strict control on securities margin financing and money lending sectors.

Liquidity, Financial Resources and Funding

At 31 December 2005, the Group had net current assets of HK$99,691,000 (2004: HK$145,384,000). The net decrease in net current assets was attributable to the loss reported.

At 31 December 2005, the Group had cash reserves of approximately HK$27,181,000 (2004: HK$73,928,000), which include approximately HK$22,161,000 (2004: HK$65,342,000) of clients' funds that were kept in designated segregated bank accounts. Most of the cash reserves were placed in Hong Kong dollar short-term deposits with major banks in Hong Kong.

The gearing ratio as at 31 December 2005 was 179% (2004: 130%). The gearing ratio was derived by dividing the aggregate of bank borrowings by the amount of shareholders' equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 142% (2004: 150%).

The Group had outstanding bank overdrafts of approximately HK$205,579,000 as at 31 December 2005 (2004: HK$205,678,000). The bank overdrafts were denominated in Hong Kong dollars and interest bearing at prevailing commercial lending rates. Listed investments belonging to clients and the Group were pledged to secure these bank overdrafts. These loans and overdrafts were used to finance the Group's operations. We expect that all these borrowings will be repaid by internal generated funds.

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

Pledge of Assets

At 31 December 2005, listed investments belonging to clients and the Group with total market value of approximately HK$89,042,000 and HK$13,348,000 respectively (2004: HK$305,074,000 and HK$22,859,000 respectively) were pledged to banks to secure overdraft facilities granted to the Group.

Capital Structure

There was no change in the Company's capital structure during the year ended 31 December 2005.

Exchange Rate Risk

The Group is exposed to a very limited level of exchange risk as the business transactions of the Group are mainly denominated in Hong Kong dollars.

Material Acquisitions and Disposals of Subsidiaries

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2005.

Human Resources

As at 31 December 2005, the Group had 24 employees.

The Group remunerated its employee mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance.

The Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

For the year ended 31 December 2004

Business Review and Prospects

During the year, the Group leveraged its expertise and track record and continued to principally engage in the provision of financial services including money lending, investment trading and holding, broking, securities margin financing, corporate finance and asset management.

Money Lending

During the year, interest income from money lending represented 12% (2003: 5%) of the Group's turnover. The Group recorded a loss due to the prudent approach towards provision concerning money lending business. The Group will continue to adopt a prudent approach to monitor and control our Group's risk exposure.

Investment Trading and Holding

Turnover reached HK$92,000,000, accounting for 54% of the Group's turnover. We will continue to invest in this area with a view to ensuring it becoming one of our major lines of businesses.

Asset Management and Advisory Fee Income

Hong Kong is a major asset management centre in Asia. In 2003, total assets of fund management business in Hong Kong amounted to HK$2,950 billion, of which HK$1,860 billion were sourced from overseas investors and accounted for 63% of the total. More institutional investors and individual investors recognize the comprehensive array of asset management products and services can help them uncover value-adding investment opportunities and optimize their financial returns. The Group leverages the wisdom of experienced funds managers to provide an array of portfolio management solutions. As such, the turnover of this segment increased 323% from HK$531,000 (2003) to HK$2,248,000.

Broking

Between July and September 2004, turnover on the Hong Kong stock market decreased despite the rise of the Hang Seng, H-share and red chip indices. The average daily turnover on the Main Board dropped 11%, from the previous quarter to HK$12.2 billion. The average daily turnover of Hang Seng Index ("HSI") constituent stocks fell 13% to HK$5.2 billion, representing 42% of total turnover. The average daily turnover of H-shares dropped 16% to HK$3 billion while turnover of red chips fell 18% to HK$1.8 billion. The average daily turnover on the GEM was HK$48,000,000, a 31% decrease from the previous quarter. IPO activity also diminished between July and September 2004.

Despite these figures, improving economic conditions bolstered investment confidence in the local market between October and December 2004. In addition, the unemployment rate decreased to 6.7% for the three months ended November 2004, while deflation was deemed to have officially ended in October. These factors, supported by the continued recovery of the property market and strong land sales, further boosted market sentiment. Trading was very active between October and December 2004. The HSI advanced 8.5% to 14,320 on 31 December 2004, while the H-share and red chip indices also rose 2% and 8.9% respectively. IPO activity also increased.

Against the backdrop of favorable market sentiment in the Hong Kong stock market, the Group's commission income increased 11% from HK$29,400,000 (2003) to HK$32,500,000, representing 19% of Group's turnover, and interest income from margin clients increased 101%, accounting for 13% of Group's turnover.

Looking Ahead

Since last year, Hong Kong's economy has been staging a broader-based recovery. With the continued economic development of the Mainland and the closer economic ties with Hong Kong, our economy is expected to maintain steady growth over the next four years. With deflation now a thing of the past, the trend growth rate of nominal GDP from 2006 through 2009 is forecast at 5.5%.

The Group is optimistic that Hong Kong's economy will maintain solid growth. In particular, Hong Kong ranked first in Asia and third in the world last year in terms of capital raised, with total IPO and post-IPO equity funds reaching some HK$265 billion, out-performing the London and Tokyo stock exchanges. This demonstrates that Hong Kong has further consolidated its position as the premier international capital-raising center for the Mainland. The Group will continue to play a strong role in providing services to other global partners looking to tap the China market and identify new business opportunities. Meanwhile, the Group will explore various ways to enhance its equity base.

Financial Review

Financial Results

During the year ended 31 December 2004, the Group recorded a turnover of approximately HK$169,137,000 (2003: HK$324,693,000), representing a decrease of 48%. Overall turnover declined mainly due to the decrease in contribution from investment trading activities. Turnover of this segment decreased by 65% to HK$91,955,000 for the year under review in comparison with last year (2003: HK$266,294,000). However, the decrease was partially offset by the increase in turnover in broking, financing and asset management. Those sectors recorded a turnover of HK$77,182,000, as compared to HK$58,399,000 in the previous year.

The loss for the year was HK$77,674,000 (2003: profit of HK$4,031,000). The loss per share was 2.59 cents (2003: earnings per share of 0.13 cent). The loss was mainly due to the Group's adoption of prudent accounting treatment in respect of doubtful debts in its securities margin-financing and money lending businesses which resulted in a provision of HK$95,624,000.

Liquidity, Financial Resources and Funding

As at 31 December 2004, the Group had net current assets of HK$145,384,000 (2003: HK$223,795,000). The net decrease in net current assets was attributable to the loss reported.

As at 31 December 2004, the Group had cash reserves of approximately HK$73,928,000 (2003: HK$89,627,000), which include approximately HK$65,342,000 (2003: HK$61,299,000) of client's funds that were kept in designated segregated bank accounts. Most of the cash reserves were placed in Hong Kong dollar short-term deposits with major banks in Hong Kong.

The gearing ratio as at 31 December 2004 was 130% (2003: 54%). The gearing ratio was derived by dividing the aggregate of bank borrowings and other borrowings by the amount of shareholders' equity. The increase in bank borrowings was mainly due to the expansion of financing activities. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 150% (2003: 198%), reflecting the financial resources are in a healthy position.

The Group had outstanding bank overdrafts of approximately HK$205,678,000 as at 31 December 2004 (2003: HK$128,057,000). The bank overdrafts were denominated in Hong Kong dollars and interest bearing at prevailing commercial lending rates. Listed investments belonging to clients and the Group were pledged to secure these bank overdrafts. These loans and overdrafts were used to finance the Group's operations. We expect that all these borrowings will be repaid by the internal generated funds.

Taking into account the financial resources available to the Group including internal generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

Pledge of Assets

At 31 December 2004, listed investments belonging to clients and the Group with total market value of HK$305,074,000 and HK$22,859,000 respectively (2003: HK$405,026,000 and nil respectively) were pledged to banks to secure overdraft and loan facilities granted to two subsidiaries.

Capital Structure

There was no change in the Company's capital structure during the year ended 31 December 2004.

Exchange Rate Risk

The Group is exposed to a very limited level of exchange risk as the business transactions of the Group are mainly denominated in Hong Kong dollars.

Material Acquisition and Disposal of Subsidiaries

On 12 January 2004, the Group entered into a conditional sale and purchase agreement with REXCAPITAL Group Limited regarding the disposal of the entire issued share capital of RFG at a consideration of HK$229,000,000, subject to adjustment with reference to the unaudited consolidated net asset value of the RFG Group as at the determination date in accordance with the terms of the sale and purchase agreement, and will be payable in cash upon completion. This transaction has not been completed up to the date of the accounts.

Apart from this, the Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2004.

Human Resources

As at 31 December 2004, the Group had 43 employees.

The Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance.

The Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

(A) LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a letter from Ting Ho Kwan & Chan, Certified Public Accountants (Practising), Hong Kong, the auditors of the Company, in respect of the unaudited pro forma financial information of the Enlarged Group.

TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS

The Directors
REXCAPITAL Financial Holdings Limited
Suite 3401, 34/F., COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Dear Sirs

REXCAPITAL Financial Holdings Limited

We report on the unaudited pro forma financial information of REXCAPITAL Financial Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed acquisition of Multi Glory Limited might have affected the financial information presented, for inclusion in the circular dated 12 June 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 162 to 167 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 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 Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules. The unaudited pro forma financial information is for illustrative purpose 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 December 2005 or any future date; or

- the results and cash flows of the Group for the year ended 31 December 2005 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ting Ho Kwan & Chan
Certified Public Accountants (Practising)

Hong Kong, 12 June 2006

(B) PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited financial statements of the Group for the year ended 31 December 2005 and the financial information of Sinodata Group for the year ended 31 December 2005 extracted from the Accountants' Report set out in Appendix I of the Circular and adjusted for the transaction resulting from the Acquisition. The financial information of Sinodata Group is translated from RMB to HK$ at the rate of HK$1 = RMB1.04.

Unaudited Pro Forma Income Statement of the Enlarged Group

The following is a summary of the unaudited pro forma income statement of the Enlarged Group, assuming that the Acquisition had been taken place on 1 January 2005 for the purpose of illustrating how the Acquisition might have affected the results of the Group.

The unaudited pro forma income statement is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the results of the Enlarged Group for the year ended 31 December 2005 or any future period shall be.

	The Group	Sinodata Group	Total	Pro-forma Adjustments	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	41,938	74,639	116,577		116,577
Cost of sales	–	(33,988)	(33,988)		(33,988)
Other income	1,225	583	1,808		1,808
Other (losses)/gains, net	(6,473)	14	(6,459)		(6,459)
Cost of trading of listed securities	(3,010)	–	(3,010)		(3,010)
Commission expenses	(5,043)	–	(5,043)		(5,043)
Depreciation	(1,846)	(5,710)	(7,556)		(7,556)
Amortisation of leasehold land and land use rights	–	(40)	(40)		(40)
Amortisation of intangible assets	–	(367)	(367)		(367)
Impairment losses for bad and doubtful debts	(18,141)	–	(18,141)		(18,141)
Staff costs	(19,005)	(9,519)	(28,524)		(28,524)
Other operating expenses	(30,758)	(5,034)	(35,792)		(35,792)

	The Group	Sinodata Group	Total	Pro-forma Adjustments	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating (loss)/profit	(41,113)	20,578	(20,535)		(20,535)
Finance costs	(12,839)	–	(12,839)		(12,839)
(Loss)/profit before taxation	(53,952)	20,578	(33,374)		(33,374)
Taxation	3,252	(621)	2,631		2,631
(Loss)/profit for the year	(50,700)	19,957	(30,743)		(30,743)
Attributable to:					
Equity holders of the Company	(50,700)	18,969	(31,731)	(10,279)[(1)]	(42,010)
Minority interests	–	988	988	10,279 [(1)]	11,267
	(50,700)	19,957	(30,743)		(30,743)

Note:

(1) To reflect the minority shareholders' share of the Sinodata Group's profit for the year.

Unaudited Pro Forma Balance Sheet of the Enlarged Group

The following is a summary of the unaudited pro forma balance sheet of the Enlarged Group, assuming that the Acquisition had been completed on 31 December 2005 for the purpose of illustrating how the Acquisition might have affected the financial position of the Group. The unaudited pro forma balance sheet is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Enlarged Group shall be on actual completion of the Acquisition.

	The Group	**Sinodata Group**	**Total**	**Pro-forma Adjustments**	**Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
NON CURRENT ASSETS					
Property, plant and equipment	3,452	23,418	26,870	19[(1)]	26,889
Leasehold land and land use rights	–	1,279	1,279	3,457[(1)]	4,736
Intangible assets	–	1,113	1,113	–	1,113
Goodwill	–	–	–	74,243[(1)]	194,739
				112,784[(3)]	
				7,712[(4)]	
Other non-current assets	3,820	–	3,820		3,820
Deferred tax assets	7,609	–	7,609		7,609
	14,881	25,810	40,691		238,906

	The Group	Sinodata Group	Total	Pro-forma Adjustments	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CURRENT ASSETS					
Inventories	–	34,112	34,112		34,112
Leasehold Land and land use rights	–	41	41	136(1)	177
Available-for-sale financial assets	–	5,769	5,769		5,769
Trade receivables	291,018	24,774	315,792		315,792
Other debtors, deposits and prepayments	2,264	16,454	18,718		18,718
Amounts due from shareholders	–	4,858	4,858		4,858
Financial assets at fair value through profit or loss	13,382	–	13,382		13,382
Profits tax refundable	790	702	1,492		1,492
Cash and cash equivalents	27,182	14,873	42,055		123,534
				231,475(2)	
				(152,880)(3)	
				(25,962)(4)	
				28,846(4)	
	334,636	101,583	436,219		517,834
TOTAL ASSETS	349,517	127,393	476,910		756,740
Capital and reserves attributable to the Company's equity holders					
Share capital	30,000	30,769	60,769	12,000(2)	47,000
				5,000(3)	
				(30,769)(1)	
Reserves	84,572	83,679	168,251	219,475(2)	374,047
				70,000(3)	
				(83,679)(1)	
	114,572	114,448	229,020		421,047
Minority interests	–	1,580	1,580	84,919(5)	86,499
TOTAL EQUITY	114,572	116,028	230,600		507,546

	The Group	Sinodata Group	Total	Pro-forma Adjustments	Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES					
CURRENT LIABILITIES					
Trade payables	24,563	9,678	34,241		34,241
Other payables and accruals	4,802	1,068	5,870	2,884(4)	8,754
Current income tax liabilities	–	619	619		619
Bank borrowings	205,580	–	205,580		205,580
	234,945	11,365	246,310		249,194
TOTAL LIABILITIES	234,945	11,365	246,310		249,194
TOTAL EQUITY AND LIABILITIES	349,517	127,393	476,910		756,740

Notes:

(1) To eliminate the Shenzhen JV's cost of acquisition against equity of the Sinodata Group acquired, to reflect fair value of assets and liabilities acquired and to take up goodwill on consolidation.

(2) To reflect the financing from placing of 1,200,000,000 existing shares at HK$0.20 per share net of expenses.

(3) To reflect the acquisition of 100% of the equity interests of Multi Glory and to take up goodwill on consolidation.

(4) To reflect 90% of capital contribution of RMB30,000,000 for increasing 5.464% equity interests in Sinodata to 50.9%.

(5) To reflect the minority interests in the Shenzhen JV and its subsidiaries.

Unaudited Pro Forma Cash Flow Statement of the Enlarged Group

The following is a summary of the unaudited pro forma cash flow statement of the Enlarged Group, assuming that the Acquisition had been taken place on 1 January 2005 for the purpose of illustrating how the Acquisition might have affected the cash flows of the Group.

The unaudited pro forma cash flow statement is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2005 or any future period.

	The Group	**Sinodata Group**	**Total**	**Pro-forma Adjustments**	**Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES	(2,791)	18,289	15,498		15,498
INVESTING ACTIVITIES	(675)	(3,318)	(3,993)		(3,993)
FINANCING ACTIVITIES	–	(10,577)	(10,577)		(10,577)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,466)	4,394	928		928
CASH AND CASH EQUIVALENTS AT 1 JANUARY	(196,093)	10,479	(185,614)		(185,614)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	(199,559)	14,873	(184,686)		(184,686)

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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 not contained in this circular, the omission of which would make any statement herein misleading.

SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

		Par Value per Share *(HK$)*	*HK$*
Authorised:			
20,000,000,000	Shares authorized as at the Latest Practicable Date	0.01	200,000,000
Issued and fully paid:			
3,656,000,000	Shares issued as at the Latest Practicable Date	0.01	36,560,000
600,000,000	Shares to be allotted and issued as the 2nd Tranche Subscription Shares	0.01	6,000,000
500,000,000	Shares to be allotted and issued as the Consideration Shares	0.01	5,000,000
4,756,000,000	Shares	0.01	47,560,000

DISCLOSURE OF INTERESTS

Directors and chief executive

(a) As at the Latest Practicable Date, the interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (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 he is taken or deemed to have under such provisions of the SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of Securities Transaction by Directors of Listed Companies:

Long position in the Shares

Name of Director	Number of Shares held	Nature of interests	Approximate percentage of issued share capital
Chan How Chung, Victor (“Mr. Chan”)	717,902,690	Interest of a controlled corporation	19.64%

Notes:

Mr. Chan was taken to be interested in 717,902,690 Shares by virtue of his 83.88% attributable shareholding interest in TingKong-RexCapital Holdings Limited. TingKong-RexCapital Holdings Limited is a contributory of TKR Finance Limited (in liquidation), which had a security interest over such Shares. TingKong-RexCapital Holdings Limited was owned as to 52.10 % by REXCAPITAL Partners Incorporated and as to 44.8% by Mr. Chan. REXCAPITAL Partners Incorporated was owned as to 75% by Mr. Chan.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its 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 any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) As at the Latest Practicable Date, none of the Directors, supervisors, proposed directors or proposed supervisors of the Company had any interest in any assets which have been, since 31 December 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(c) As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Enlarged Group.

Substantial shareholders

Interests in the Company

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons, other than a director or chief executive of the Company, had an interest and/or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group:

Name of Shareholder	Nature of interests	Number of Shares interested under the Share Purchase Agreement	Number of Shares held	Approximate percentage of issued share capital
Kingly Profits Corporation	Beneficial and other interest	–	1,298,805,635 *(Note 1)*	35.53%
TKR Finance Limited (in liquidation)	Security interest	–	864,102,690	23.64%
TingKong-RexCapital Holdings Limited	Interest in controlled corporation	–	717,902,690 *(Note 2)*	19.64%
CITIC Media Group Limited	Interest in controlled corporation	500,000,000	–	13.68%

Name of Shareholder	Nature of interests	Number of Shares interested under the Share Purchase Agreement	Number of Shares held	Approximate percentage of issued share capital
Gandhara Advisors Asia Limited a/c Gandhara Master Fund Limited	Beneficial	–	646,625,000	17.69%
Citigroup Inc.	Beneficial	–	261,695,000	7.16%

Notes:

1. These Shares were held by Kingly Profits Corporation, which was owned as to 70.18% by King United Agents Limited. King United Agents Limited was wholly owned by Mr. To Shu Fai.

2. TingKong-RexCapital Holdings Limited was owned as to 52.1% by REXCAPITAL Partners Incorporated. REXCAPITAL Partners Incorporated was owned as to 75% by Mr. Chan How Chung, Victor, a director of the Company. The interest disclosed herein was the same as the interest of Mr. Chan as disclosed in the section under "Disclosure of Interests – Directors and chief executive" in this Appendix.

Save as disclosed above and so far as is known to the Directors, as at the Latest Practicable Date, no other person has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTERESTS

Pursuant to Rule 8.10(2) of the Listing Rules, details of the interests held by the Directors in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group, are disclosed as follows:

Name of company	Competing business
D&M Finance Limited ("D&M")	Money lending
RPI Finance Limited ("RPI")	Money lending
TKR Finance Limited ("TKR") (in liquidation)	Money lending

Mr. Chan How Chung, Victor is a director of the above companies and is deemed to be a substantial shareholder of RPI and TKR. Ms. Lee Huei Lin is also a director of the above companies. The terms and conditions of the financing loans of each of D&M, RPI and TKR are market driven and agreed at arm's length between the borrowers and the financiers. When making decisions on the above competing businesses, the relevant Directors, in the performance of their duties as Directors, have acted and will continue to act in the best commercial interest of the Group.

EXPERT STATEMENTS

This circular includes statement(s) made by the following experts:

Name	Qualification
FB Gemini Capital Limited	a licensed corporation to carry out types 1 (dealing in securities), 4 (advising on securities), and 6 (advising on corporate finance)
Ting Ho Kwan & Chan	Certified public accountants (practising)

The above experts have given and has not withdrawn their written consents to the issue of this circular with their statement(s) included in the form and context in which they are included.

As at the Latest Practicable Date, the above experts did not have any shareholding 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, the above experts did not have any interest in any assets which have been, since 31 December 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published consolidated audited accounts of the Group had been made up.

LITIGATION

As at the Latest Practicable Date, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group or the Enlarged Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation)).

MATERIAL CONTRACTS

The particulars of all material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

(a) the Share Purchase Agreement;

(b) the Placing Agreement; and

(c) the Subscription Agreement.

MISCELLANEOUS

(a) The English language text of this document shall prevail over the Chinese language text.

(b) The Secretary of the Company is Ms. Ng Yuen Yee, *ACS, ACIS*.

(c) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Ma Kwok Hung, Warren, *FCCA, CPA*.

(d) The Company's branch share registrars and transfer office in Hong Kong is Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suite 3401, 34th Floor, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong for a period of 14 days (excluding Saturdays) from the date of this circular:

(a) the bye-laws of the Company;

(b) each of the contracts set out under the paragraph headed "Material Contracts" in this Appendix;

(c) accountants' report on the Sinodata Group as signed by Ting Ho Kwan & Chan, the text of which is set out in Appendix I to this circular;

(d) the statement of pro forma net assets of the Enlarged Group prepared by Ting Ho Kwan & Chan referred to in Appendix III to this circular;

(e) the consolidated audited accounts of the Company and its subsidiaries for each of the two financial years ended 31 December 2004 and 31 December 2005;

(f) accountants' statement of adjustments;

(g) the letter from the Independent Board Committee, the text of which is set out on page 35 in this circular;

(h) the letter from FB Gemini, the text of which is set out on pages 36 to 53 in this circular;

(i) the written consent of Ting Ho Kwan & Chan as referred to under the section headed "Expert Statements" in this Appendix; and

(j) the written consent of FB Gemini as referred to under the section headed "Expert Statement" in this Appendix.

REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

NOTICE IS HEREBY GIVEN that a special general meeting (the "Special General Meeting") of REXCAPITAL Financial Holdings Limited (the "Company") will be held at 34/F., COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong on Thursday, 29 June 2006 at 4:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the execution of the share purchase agreement dated 15 March 2006 as amended by a supplemental agreement dated 20 March 2006 (the "Share Purchase Agreement"), entered into between the REXCAPITAL Financial Group Limited (the "Purchaser"), the Company and Magic Dynasty Limited (the "Vendor") in relation to the proposed acquisition of the entire issued share capital of Multi Glory Limited by the Purchaser from the Vendor pursuant to the Share Purchase Agreement at a consideration of HK$227,880,000 which is to be satisfied as to HK$152,880,000 in cash and as to HK$75,000,000 by the issue of 500,000,000 new Shares of HK$0.01 each in the share capital of the Company ("Consideration Shares") at an issue price of HK$0.15 per Share to the Vendor (or its nominee) (the "Acquisition"), a copy of the Share Purchase Agreement has been produced to the meeting marked "A" and initialed by the chairman of the meeting for identification purpose and the Acquisition, the issue of the Consideration Shares and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the directors of the Company be and are hereby authorized to sign, seal, execute, perfect, deliver or do all such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things, matters and take all such actions as he or they may in his or their discretion consider necessary or desirable for the purpose of or in connection with the giving effect to the Share Purchase Agreement and the exercise or enforcement of any of the Company's rights under the Share Purchase

Agreement including, inter alias, upon the Share Purchase Agreement becoming unconditional, the authority to complete the transactions contemplated by the Share Purchase Agreement or to procure completion of the same and to make and agree with such changes in the terms of the Share Purchase Agreement as any such director(s) may in their discretion consider necessary, desirable or expedient and in the interest of the Company; and

(b) the directors of the Company be and they are hereby authorized to allot and issue the Consideration Shares to Magic Dynasty Limited (or to such other person or persons as it may nominate) upon the completion of the Acquisition or any part thereof, credited as fully paid pursuant to the terms of the Share Purchase Agreement, such Consideration Shares shall rank pari passu in all respects with the existing shares of the Company in issue at the date of allotment of the Consideration Shares."

2. "**THAT** the subscription of 600,000,000 Shares of HK$0.01 each in the share capital of the Company ("2nd Tranche Subscription Shares") as subscribed by Kingly Profits Corporation pursuant to the subscription agreement (the "Subscription Agreement") dated 23 March 2006, thereby be and are hereby confirmed, ratified and approved; and that the directors of the Company be and they are hereby authorized to allot and issue the 2nd Tranche Subscription Shares to Kingly Profits Corporation (or to such other person or persons as it may nominate) upon the completion of the Subscription or any part thereof, such 2nd Tranche Subscription Shares shall rank pari passu in all respects with the existing shares of the Company in issue at the date of allotment of the 2nd Tranche Subscription Shares."

3. "**THAT** subject to and conditional upon the granting by the listing sub-committee of the board of the Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the shares in the share capital of the Company to be issued pursuant to the exercise of option granted under the refreshed scheme mandate limit (the "Scheme Mandate Limit") under the share option scheme adopted on 22 November 2002 in the manner as set out in paragraph (a) of this resolution below,

(a) the refreshment of the Scheme Mandate Limit of up to 10% of the shares of the Company in issue as at the date of passing of this resolution be and is hereby approved; and

(b) the directors of the Company be and are hereby authorized to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary or expedient to give effect to the foregoing arrangement."

By order of the board of
REXCAPITAL Financial Holdings Limited
Chan How Chung, Victor
Executive Director

Hong Kong, 12 June 2006

Notes:

1. Any member of the Company (the "Member") entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. Vote may be given either personally or by a duly authorized corporate representative or by proxy. A Member who is the holder of two or more shares of the Company (the "Shares") may appoint more than one proxy to attend on the same occasion provided that, if more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed. A proxy need not be a Member. In addition, a proxy or proxies representing either an individual Member or a Member which is a corporate, shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise, including, without limiting the generality of foregoing, but subject to the right to vote individually on a show of hands.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is corporation, either under seal or under the hand of an officer or attorney duly authorized.

3. A form of proxy for the Meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the Company's share registrar in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude of a Member from attending and voting in person at the meeting or poll concerned.

4. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution unless it states that it is valid for all meetings whatsoever until revoked with the exception that any instrument may be used at any adjournment of the meeting for which it was originally intended and on a poll demanded at a meeting or adjourned meeting provided that in all these cases the meeting was originally held within 12 months from such date.

5. The instrument appointing a proxy to vote shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit.

6. A vote given in accordance with the terms of an instrument of proxy or power of attorney or by the duly authorized corporate representative of a corporation shall be valid notwithstanding the previous death or insanity of the principal or the revocation of the proxy or power of the attorney or other authority under which the proxy was executed or transfer of the Share in respect of which the proxy is given provided that no intimation in writing of the death, insanity, revocation or transfer has been received at the office or such other place as was specified for the deposit of instrument of proxy or by the chairman of the meeting at least 2 hours before the commencement of the meeting or adjourned meeting at which the instrument of proxy is used.