



REXCAPITAL Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

FINANCIAL RESULTS

The board of directors (the “Board”) of REXCAPITAL Financial Holdings Limited (the “Company”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	27,944	25,447
Other income		691	746
Fair value gain/(loss) on financial assets at fair value through profit and loss, net		15,610	(9,418)
Write-back of impairment losses on recovery of bad debts previously provided		13,225	–
Cost of trading of listed securities		(1,852)	–
Commission expenses		(1,445)	(3,755)
Depreciation		(771)	(957)
Impairment losses for bad and doubtful debts		(1,652)	(12,541)
Staff costs		(8,647)	(9,562)
Other operating expenses		(12,689)	(13,931)
Operating profit/(loss)	4	30,414	(23,971)
Finance costs		(8,905)	(5,451)
Profit/(loss) before taxation		21,509	(29,422)
Taxation	5	(1,279)	–
Profit/(loss) for the period		20,230	(29,422)
Dividend	6	–	–

Earnings/(loss) per share			
Basic	7(a)	<u>0.61 cents</u>	<u>(0.98) cents</u>
Diluted	7(b)	<u>0.59 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON CURRENT ASSETS			
Property, plant and equipment		2,681	3,452
Other non-current assets		2,264	3,820
Deferred tax asset		<u>6,330</u>	<u>7,609</u>
		<u>11,275</u>	<u>14,881</u>
CURRENT ASSETS			
Trade receivables	8	357,652	291,018
Other debtors, deposits and prepayments		32,625	2,264
Financial assets at fair value through profit or loss		27,216	13,382
Profits tax refundable		842	790
Bank balances and cash	9	<u>156,085</u>	<u>27,182</u>
		<u>574,420</u>	<u>334,636</u>
CURRENT LIABILITIES			
Trade payables	10	23,612	24,563
Other payables and accruals		97,312	4,802
Short term bank loan, secured		2,000	1,000
Bank overdrafts, secured		<u>202,893</u>	<u>204,580</u>
		<u>325,817</u>	<u>234,945</u>
NET CURRENT ASSETS		<u>248,603</u>	<u>99,691</u>
NET ASSETS		<u>259,878</u>	<u>114,572</u>
CAPITAL AND RESERVES			
Share capital	11	36,560	30,000
Reserves		<u>223,318</u>	<u>84,572</u>
		<u>259,878</u>	<u>114,572</u>

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and are in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”), which contain amendments mandatory for annual periods beginning on or after 1 January 2006.

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

The adoption of the above HKFRS has no material impact on the Group’s results of operations for the current period or financial position at 30 June 2006.

2. Business and geographical segments

The Group is principally organized 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 segments during the current and prior periods.

An analysis of the Group’s unaudited turnover and segmental results for the period by principal activities are as follows:

Business segments

For the six months ended 30 June 2006

	Money lending		Investment trading and holding		Broking		Securities margin financing		Corporate finance and asset management		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE												
Turnover	8,924	7,634	9,575	64	3,393	9,307	5,549	7,675	503	767	27,944	25,447
RESULTS												
Segment profit/(loss)	807	3,914	22,121	(9,398)	191	(13,892)	3,369	(8,533)	(468)	(746)	26,020	(28,655)
Net unallocated expenses											(4,511)	(767)
Profit/(loss) before taxation											21,509	(29,422)
Taxation											(1,279)	-
Profit/(loss) for the period											20,230	(29,422)

As over 90% of the Group's turnover and profit/(loss) before taxation are derived from Hong Kong, no analysis of geographical segments has been disclosed in the condensed consolidated financial statements.

3. Turnover

Revenue from the following activities has been included in turnover:

	Six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Commission income and handling fee income	3,393	9,307
Interest income from		
Bank	1,148	64
Margin clients	5,549	7,675
Loan receivables	8,924	7,634
Sales of trading listed securities	8,427	–
Asset management and advisory fee income	503	767
	<u>27,944</u>	<u>25,447</u>

4. Operating profit/(loss) before tax

The Group's operating profit/(loss) is stated after charging the following:

	Six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Auditors' remuneration	204	124
Operating lease rentals in respect of office premises and warehouse	<u>2,768</u>	<u>2,611</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: Nil) on the estimated assessable profits for the six months ended 30 June 2006.

	Six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax	<u>1,279</u>	<u>–</u>

6. Dividend

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2006 (2005: HK\$ Nil).

7. Earnings/(Loss) per share

The calculation of basic and diluted earnings per share are based on the profit attributable to equity holders of the Company of HK\$20,230,000 (2005: loss of HK\$29,422,000).

- (a) The basic earnings per share is based on the weighted average number of 3,305,773,000 (2005: 3,000,000,000) ordinary shares in issue during the six months ended 30 June 2006.
- (b) The diluted earnings per share for the six months ended 30 June 2006 is based on 3,438,191,000 (2005: N/A) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 132,418,000 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. Trade receivables

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Margin client receivables, net	23,534	43,745
Other client receivables, net	9,997	4,465
Broker receivables	517	387
Amounts due from clearing houses	1,460	805
Loan receivables, net	311,744	234,097
Loan interest receivables, net	10,400	7,519
	<u>357,652</u>	<u>291,018</u>

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\$69,882,000 as at 30 June 2006 (31 December 2005: HK\$94,305,000). No aged analysis is disclosed for margin client receivables as, in the opinion of the directors of the Company (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 a Director of approximately HK\$8,788,000 (30 June 2006: HK\$Nil). The amounts due from the associates are of similar trading terms as the other clients. The balance was fully repaid during the period.

Included in the above loan receivables as at 30 June 2006 is the account of a company which is in liquidation of approximately HK\$2,640,000 (31 December 2005: HK\$2,640,000). The loan was secured by listed securities in Hong Kong which has a market value well above the outstanding balance as at 30 June 2006.

The remaining maturity of loan receivables as at 30 June 2006 is as follows:

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Three months or less	196,872	124,090
One year or less but over three months	112,232	110,007
Over one year	2,640	—
	<u>311,744</u>	<u>234,097</u>

9. Bank balances and cash

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Bank balances		
– general accounts	140,791	4,995
– segregated accounts	15,268	22,161
Cash in hand	26	26
	<u>156,085</u>	<u>27,182</u>

10. Trade payables

	At 30 June 2006 (Unaudited) HK\$'000	At 31 December 2005 (Audited) HK\$'000
Margin client payables	3,432	6,056
Other client payables	20,180	18,507
	<u>23,612</u>	<u>24,563</u>

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.

11. Share Capital

Authorized:

	Ordinary shares of HK\$0.01 each	
	Number of shares	HK\$
At 31 December 2005 and at 30 June 2006	<u>20,000,000,000</u>	<u>200,000,000</u>

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
Placing and subscription (note (a))	600,000,000	6,000,000
Exercise of share options (note (b))	<u>56,000,000</u>	<u>560,000</u>
At 30 June 2006	<u>3,656,000,000</u>	<u>36,560,000</u>

Notes:

- (a) During the period, the Company issued 600,000,000 new shares of HK\$0.01 each at a price of HK\$0.2 per share pursuant to a subscription agreement dated 23 March 2006. Details of which are set out in the circular of the Company dated 12 June 2006.
- (b) 56,000,000 new shares of HK\$0.01 each were issued and allotted during the period upon exercise of share options granted by the Company.

12. Comparative amounts

Certain comparative amounts have been reclassified and restated to comply with the new and revised HKFRSs' requirements and conform to the current period's presentation.

13. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2006 (31 December 2005: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2006, the Group achieved an encouraging result. During the period, the unaudited profit attributable to shareholders was HK\$20,230,000 (2005: loss of HK\$29,422,000). Turnover rose by HK\$2,497,000 to HK\$27,944,000 (2005: HK\$25,447,000).

Business Review And Prospects

For the period under review, the Group was 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 its business, the Group has been exploring investment opportunities in China.

Money Lending

Interest income earned from money lending business in the period accounted for 32% (2005: 30%) of the Group's turnover. The Group will continue to adopt a prudent policy in granting of loans and carry out regular assessment on the creditworthiness of the clients.

Investment Trading and Holding

As a result of the stock market recovered stably in the first half of 2006. The turnover of investment trading and holding segment increased substantially to HK\$9,575,000, representing 34% of the total turnover and generating a profit of HK\$22,121,000. The substantial increase in turnover and profit was mainly contributed by an increase in investment activities of HK\$8,427,000 and unrealized gain on securities amounting to HK\$15,610,000 respectively. However, given the rising interest rates and buoyant oil price have been affecting the market sentiment, the Group will continue to adopt a prudent approach to carry out regular reviews and assessments of the investment portfolio.

Broking and Securities Margin Financing

Despite daily average turnover of Hong Kong stock market sustaining at HK\$32 billion level, the market conditions remained tough in the light of keen competition from local brokerage and banks. Broking business still faced a challenging time especially when the Group 'A' brokers were dominating the market. Turnover of the Group's broking business decreased by 64% to HK\$3,393,000, representing

12% of the total turnover. Turnover of the Group's securities margin financing business also decreased by 28% to HK\$5,549,000, representing 20% of the total turnover. Nevertheless, this segment achieved a profit of HK\$3,560,000 which was the result of net doubtful debts written back amounting to approximately HK\$11,573,000 during the period.

Asset Management

Turnover from this segment accounted for 2% of the Group's total turnover. The downturn of the Group's asset management business was partially reflected by higher operating cost and the keen competition in the market. However, Hong Kong is a major asset management centre in Asia. The Group sees growth potential in asset management and will continue to identify and accumulate quality investments.

Acquisition of China Lottery System Developer

In March 2006, the Group entered into an agreement to acquire Multi Glory Limited, which holds 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 and accounts for approximately 40% of the total welfare lottery market in 2005 in terms of the geographical coverage, number of machines deployed and welfare lottery revenue generated in the provinces covered. Sinodata has been in operation for over 7 years with growing track records. It has already deployed over 40,000 lottery machines located in 13 provinces in China. The transaction was completed in July 2006.

Placing and Subscription of Shares

On 23 March 2006, the Company, a placing agent and Kingly Profits Corporation ("Kingly Profits") 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 at the placing price of HK\$0.20 per share (the "Placing Shares") on behalf of the Kingly Profits. On the same date, the Company entered into a 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 share. The subscription of the 600,000,000 1st tranche subscription shares and the 600,000,000 2nd tranche subscription shares were completed on 4 April 2006 and 12 July 2006 respectively.

Looking Ahead

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 the past period, the Group has been proactively identifying suitable investment opportunities to enhance the Group's revenue base and profitability. The Directors are of the view that its investment in Sinodata 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. Through the acquisition 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, 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.

Subsequent to the period end in July 2006, the Group announced the acquisition of 70% stake in 北京戈德利邦科技有限公司 ("Guard Libang"), one of the leaders in the instant lottery industry in China, for a total consideration of HK\$157,040,000. Leveraging on the patented 2D barcode anti-counterfeiting technology, Guard Libang is engaged in projects with 13 provincial and municipal Welfare Lottery Administration Centres involving the construction of various instant lottery games ticket issuing and sale administration system.

Meanwhile, the Group extended its business to China sports lottery system and entered into an agreement to acquire 58% stake in Shenzhen Kingsail Software Tech. Co., Ltd. (“Kingsail”) for a total consideration of HK\$29,000,000. Kingsail is one of the approved vendors for the development and production of sports lottery machine by China Sports Lottery Administration Center. Details of the above transactions are set out in the Company’s announcements dated 31 July 2006 and 9 August 2006 respectively.

There is huge growth potential in lottery market in China. 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%). During the first half of the year, the revenue generated was over RMB23 billion. The Group has confidence in development and provision of related services of lottery system in order to capitalize on the fast growing market. The Group is considering to put in more resources which enables it to offer more comprehensive and quality services to the lottery market in China, with a view to enrich the business portfolio.

Financial Review

Liquidity, Financial Resources and Funding

At 30 June 2006, the equity attributable to equity holders of the Company amounted to HK\$259,878,000, representing an increase of HK\$145,306,000 or approximately 127% from those of 31 December 2005.

At 30 June 2006, the Group had cash reserves of approximately HK\$156,085,000 (31 December 2005: HK\$27,182,000), which included approximately HK\$15,268,000 (31 December 2005: HK\$22,161,000) 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 30 June 2006 was 79% (31 December 2005: 179%). The gearing ratio was derived by dividing the aggregate of bank borrowings and other borrowings by the amount of shareholders’ equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 176% (31 December 2005: 142%), reflecting adequacy of financial resources.

The Group had outstanding bank loan and overdrafts of approximately HK\$204,893,000 as at 30 June 2006 (31 December 2005: HK\$205,580,000). The bank loan and overdrafts were denominated in Hong Kong dollars, interest bearing at prevailing commercial lending rates and repayable on demand or within one year. Listed investments belonging to clients were pledged to secure these bank loan and overdrafts. These loan and overdrafts were used to finance the Group’s operations. We expect that all these borrowings will be repaid by internally generated funds.

During the period, banking facilities were created for the settlement of cash consideration for the acquisition projects 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 reporting date, no advance has been made under the facilities.

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 30 June 2006, listed investments belonging to clients and the Group with total market value of approximately HK\$84,098,000 and HK\$26,986,000 respectively (31 December 2005: HK\$89,042,000 and HK\$13,348,000 respectively) were pledged to banks to secure term loan and overdraft facilities granted to the Group.

Share Capital

During the period, the Company issued 600,000,000 new shares of HK\$0.01 each at a price of HK\$0.2 per share pursuant to a subscription agreement dated 23 March 2006. Details of which are set out in the circular of the Company dated 12 June 2006.

56,000,000 new shares of HK\$0.01 each were issued and allotted during the period upon exercise of share options granted by the Company.

Save as the above, there was no change in the share capital structure of the Company during the period under review.

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

On 15 March 2006, REXCAPITAL Financial Group Limited (“RFGL”), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Magic Dynasty Limited under which RFGL agreed to acquire the entire issued share capital of Multi Glory Limited, a company which is holding an indirect interest in 45.436% of the registered capital of Sinodata. 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 500,000,000 consideration shares at a price of HK\$0.15 per share. Details of the acquisition are set out in the Company’s circular dated 12 June 2006. The transaction has been completed on 7 July 2006.

Post Balance Sheet Events

On 25 July 2006, Genius Nation Limited (“Genius Nation”), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Gain Silver International Limited under which Genius Nation agreed to acquire the entire share capital of Happy Sun Technologies Ltd which, upon completion, will indirectly own 70% of Guard Libang. The consideration payable for the acquisition is HK\$157,040,000 which is to be satisfied as to HK\$68,240,000 in cash and as to HK\$88,800,000 by the issue of 240,000,000 consideration shares at a price of HK\$0.37 per share. Details of the acquisition are set out in the Company’s announcement dated 31 July 2006. The transaction has not yet been completed up to the date of this report.

On 8 August 2006, Huge Top Enterprises Inc., a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Grand Langley Limited for the acquisition of the entire issued share capital of Pentium Win Limited at the consideration of HK\$29,000,000. Upon completion of the transaction, Pentium Win Limited shall be indirectly interested in 58% of the registered capital of Kingsail. Details of the acquisition are set out in the Company’s announcement dated 9 August 2006. The transaction has not yet been completed up to the date of this report.

Human Resources

At 30 June 2006, the Group had 21 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 the individual’s performance.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the six months period, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, except that the Code Provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election. Currently the non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meeting as specified in the Company's bye-laws (the "Bye-laws").

In order to ensure compliance with the Code Provisions and consistency with the Bye-laws, a special resolution was passed at the 2006 annual general meeting held on 19 June 2006 to amend the Bye-laws to the effect that:

- (a) At any general meeting on a show of hands every shareholder who is present in person or by a duly authorized corporate representative or by a proxy shall have one vote.
- (b) All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

By order of the Board
Chan How Chung, Victor
Director

Hong Kong, 28 September 2006

As at the date of this announcement, the Board comprises two executive directors namely Mr. Chan How Chung, Victor and Mr. Boo Chun Lon and three independent non-executive directors namely Mr. Yuen Wai Ho, Mr. On Kien Quoc and Mr. Chow Siu Ngor.

Please also refer to the published version of this announcement in The Standard.