



REXCAPITAL Financial Holdings Limited

御泰金融控股有限公司

(Incorporated in Bermuda with limited liability)

Interim Report 2003



The board of directors (the "Board") of REXCAPITAL Financial Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

		Six months ended 30 June	
		2003 (unaudited) <i>HK\$'000</i>	2002 (unaudited) <i>HK\$'000</i>
	<i>Notes</i>		
Turnover	3	23,227	24,447
Other revenue		1,723	3,230
Commission expenses		(3,098)	(3,643)
Amortisation of intangible assets		(647)	(209)
Depreciation		(1,532)	(2,077)
Provision for doubtful debts		—	(3,409)
Staff costs		(6,220)	(17,254)
Other operating expenses		(10,530)	(12,882)
Operating profit/(loss)		2,923	(11,797)
Finance costs		(2,454)	(56)
Profit/(loss) before taxation		469	(11,853)
Taxation	4	2	13
Profit/(loss) for the period		471	(11,840)
Dividends	5	—	—
Basic earnings/(loss) per share	6	0.08 cents	(1.97) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

	Notes	At 30 June 2003 (unaudited) <u>HK\$'000</u>	At 31 December 2002 (audited) <u>HK\$'000</u>
NON-CURRENT ASSETS			
Fixed assets		7,943	9,976
Intangible assets		1,938	2,585
Investment securities		50	50
Statutory deposits		7,733	3,781
		<u>17,664</u>	<u>16,392</u>
CURRENT ASSETS			
Trade receivables	7	367,480	236,532
Other debtors, deposits and prepayments		3,181	1,122
Other investments		88	88
Bank balances and cash	8	92,357	59,201
		<u>463,106</u>	<u>296,943</u>
CURRENT LIABILITIES			
Trade payables	9	66,074	66,497
Other payables and accrued charges		4,351	5,955
Amount due to a related company	12(b)	4,300	2,334
Loans from a related company	12(c)	61,975	—
Bank overdrafts		113,916	8,866
		<u>250,616</u>	<u>83,652</u>
NET CURRENT ASSETS		<u>212,490</u>	<u>213,291</u>
NET ASSETS		<u>230,154</u>	<u>229,683</u>
CAPITAL AND RESERVES			
Share capital		60,000	60,000
Reserves		170,154	169,683
TOTAL CAPITAL AND RESERVES		<u>230,154</u>	<u>229,683</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Share capital	Share premium	Capital reserve	Retained profit/ (accumulated losses)	Special reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2002	60,000	43,652	22	27,540	127,581	258,795
Net loss for the period	—	—	—	(11,840)	—	(11,840)
As at 30 June 2002	<u>60,000</u>	<u>43,652</u>	<u>22</u>	<u>15,700</u>	<u>127,581</u>	<u>246,955</u>
As at 1 January 2003	60,000	43,652	22	(1,572)	127,581	229,683
Net profit for the period	—	—	—	471	—	471
As at 30 June 2003	<u>60,000</u>	<u>43,652</u>	<u>22</u>	<u>(1,101)</u>	<u>127,581</u>	<u>230,154</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	Six months ended 30 June	
	2003 (unaudited) <i>HK\$'000</i>	2002 (unaudited) <i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(148,864)	37,583
Net cash (used in)/generated from investing activities	(49)	43,559
Net cash generated from financing activities	61,975	—
(Decrease)/increase in cash and cash equivalents	(86,938)	81,142
Cash and cash equivalents at 1 January	18,036	89,630
Cash and cash equivalents at 30 June	<u>(68,902)</u>	<u>170,772</u>
Analysis of the balances of cash and cash equivalents		
Bank balances — general accounts	44,994	170,732
Cash in hand	20	40
Bank overdrafts	(113,916)	—
	<u>(68,902)</u>	<u>170,772</u>

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS

For the six months ended 30 June 2003

1. Basis of preparation

The condensed interim accounts are unaudited, but have been reviewed by the Company's audit committee. The condensed consolidated accounts of the Group 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 with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA").

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

2. Principal accounting policies

The condensed accounts have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual accounts for the year ended 31 December 2002, except as described below.

In the current period, the Group has adopted, for the first time, the revised SSAP 12 "Income Taxes" ("SSAP 12 (Revised)") issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS (continued)

For the six months ended 30 June 2003

3. Business and geographical segments

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

Business segments

For the six months ended 30 June 2003

	Broking	Securities margin financing	Money lending	Investment trading and holding	Corporate finance and asset management	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Turnover	10,896	3,669	7,805	95	762	23,227
RESULTS						
Segment (loss)/profit	(7,107)	2,619	7,861	95	302	3,770
Net unallocated expenses						(3,301)
Profit before taxation						469
Taxation						2
Profit for the period						471

For the six months ended 30 June 2002

	Broking	Securities margin financing	Money lending	Investment trading and holding	Corporate finance and asset management	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Turnover	18,069	4,044	—	1,325	1,009	24,447
RESULTS						
Segment (loss)/profit	(16,082)	2,194	—	3,486	(657)	(11,059)
Net unallocated expenses						(794)
Loss before taxation						(11,853)
Taxation						13
Loss for the period						(11,840)

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 consolidated accounts.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS (continued)

For the six months ended 30 June 2003

4. Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Group has no estimated assessable profits for both periods.

The taxation credit in both periods represents the overprovision of Hong Kong profits tax in previous years.

5. Dividends

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003 (2002 : Nil).

6. Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's net profit of HK\$471,000 (2002: loss of HK\$11,840,000) and on the weighted average number of 600,000,000 shares (2002: 600,000,000) in issue during the six months ended 30 June 2003.

No diluted earnings/(loss) per share has been calculated for the six months ended 30 June 2003 and 2002 as there were no potential dilutive ordinary shares in issue.

7. Trade receivables

	At 30 June 2003 <hr/> <i>HK\$'000</i>	At 31 December 2002 <hr/> <i>HK\$'000</i>
Margin client receivables, net	134,106	43,895
Other client receivables	5,685	2,390
Broker receivables	1,109	4,328
Amounts due from clearing houses	10,917	19,151
Loan receivables	208,961	162,068
Loan interest receivables	6,702	4,700
	<hr/> 367,480 <hr/>	<hr/> 236,532 <hr/>

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 "Stock Exchange") with a market value of approximately HK\$356 million as at 30 June 2003 (31 December 2002: HK\$150 million). 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.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS (continued)

For the six months ended 30 June 2003

7. Trade receivables (continued)

The settlement terms of other client receivables, broker receivables and amounts due from clearing houses are 1 to 2 days after trade date. The age of these balances is less than 30 days.

Included in the above client receivables as at 30 June 2003 are the accounts of associates of Directors of approximately HK\$20,157,000 (31 December 2002: HK\$4,047,000).

The remaining maturity of loan receivables as at 30 June 2003 is as follows:

	At 30 June 2003 <hr/> HK\$'000	At 31 December 2002 <hr/> HK\$'000
Three months or less	98,714	98,343
One year or less but over three months	110,247	63,725
	<hr/> 208,961 <hr/>	<hr/> 162,068 <hr/>

8. Bank balances and cash

	At 30 June 2003 <hr/> HK\$'000	At 31 December 2002 <hr/> HK\$'000
Bank balances		
— general accounts	44,994	26,882
— segregated accounts	47,343	32,299
Cash in hand	20	20
	<hr/> 92,357 <hr/>	<hr/> 59,201 <hr/>

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS (continued)

For the six months ended 30 June 2003

9. Trade payables

	At 30 June 2003	At 31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Margin client payables	18,452	11,160
Other client payables	43,944	36,826
Amount due to a clearing house	3,678	18,511
	66,074	66,497

Margin client payables are repayable on demand and bear interest at prevailing market rates. No aged analysis is disclosed for margin 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.

The settlement terms of other client payables and amount due to a clearing house are 2 days after the trade date. The age of these balances is less than 30 days.

Included in the above client payables as at 30 June 2003 is the account of a Director of approximately HK\$8,000 (31 December 2002: Nil).

10. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2003 (31 December 2002: Nil).

11. Commitments

As at 30 June 2003, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2003	At 31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings		
Within one year	5,622	4,511
In the second to fifth year inclusive	18,240	492
From the fifth year onward	1,087	—
	24,949	5,003

The Group leases office premises under operating leases. The leases run for an initial period of 1-6 years. The leases do not include any contingent rentals.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS (continued)

For the six months ended 30 June 2003

12. Related party transactions

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

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Directors		
Commission, fee and interest income	8	169
Interest paid	—	2
Shareholders		
Commission, fee and interest income	—	289
Associates of Directors		
Commission, fee and interest income	545	—
License fee paid for use of premises	743	—
Loan interest paid	506	—
Loan arrangement fee paid	250	—
	<u>250</u>	<u>—</u>

In the opinion of the Directors, the above transactions were entered into in the Group's ordinary course of business and on normal commercial terms.

- (b) The amount due to a related company is unsecured, interest free and with no fixed repayment terms.
- (c) The loans from a related company are unsecured, interest bearing at prime rate plus 3% per annum and are repayable within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the period under review, the Group recorded a turnover of HK\$23,227,000 (2002: HK\$24,447,000) and a profit of HK\$471,000 (2002: loss of HK\$11,840,000).

The Group's staff costs and other operating expenses decreased by 44% to HK\$16,750,000 for the review period in comparison with the last interim period (2002: HK\$30,136,000).

Business Review and Prospects

Broking

For the period under review, the general investment environment continued to be difficult. The outbreak of the severe acute respiratory syndrome in March 2003 inevitably added pressure to the already depressed economy. In April, the Hang Seng Index was as low as 8,331, which was a 4 year low. The average daily trading volume on the Stock Exchange for the first five months of this year was HK\$6,617 million, compared with HK\$7,487 million in the same period last year, representing a decrease of 12%.

Investors' confidence in the securities market was further eroded by the accounting scandals and corporate governance issues in the People's Republic of China and the USA. The war in Iraq together with tension and terrorist attacks in various parts of the world also adversely affected the investment sentiment and market activity in the review period.

Such economic and political uncertainties have weakened the equity market in Hong Kong and driven the investors to stay away from the securities market. Therefore, our turnover from broking business was affected and dropped to approximately HK\$10,896,000, representing a decline of 40% from HK\$18,069,000 of the corresponding period in 2002.

Under such tough market conditions, we have taken positive measures to improve our business and to maintain profitability. We have also controlled costs and closed down those unprofitable branches to maximise our returns, and recruited more professionals and experienced sales executives to maximise satisfaction of our customers.

The liberalisation of the commission rate with effect from April 2003 has significant impact on brokerage income of the Group and on the account executives. We will keep improving our quality of service to justify the commission rate. We believe the focus of securities and futures broking will gradually shift to online trading. Therefore, the Group has already set up an online trading platform for securities while trading of futures contracts will be added to the existing platform in late 2003.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financing

Securities margin financing and money lending interest income accounted for 49% (2002: 17%) of the Group's turnover.

To compensate for the slowdown of activities of the traditional securities brokerage business, the Group has commenced to engage in the money lending business in late 2002 and the results of this business is fruitful. The Group will continue to adopt a prudent and conservative margin financing policy and a strict control on loan lending as an effort to control the risk level to protect the interests of the shareholders.

Asset Management

Asset management has been a core focus in the financial world. Investors can utilise asset management to diversify their investment portfolio as well as to manage their assets.

Our asset management division is in its early stage of development and it is now in the process of setting up its second private fund. This fund will be launched in the fourth quarter of this year.

Financial Review

Liquidity, Financial Resources and Funding

At 30 June 2003, the Group had net current assets of HK\$212,490,000 (31 December 2002: HK\$213,291,000).

At 30 June 2003, the Group had cash reserves of approximately HK\$92 million (31 December 2002: HK\$59 million), which include approximately HK\$47 million (31 December 2002: HK\$32 million) 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 (total liabilities/total shareholders' funds) as at 30 June 2003 was 109% (31 December 2002: 36%).

The Group's debt capital structure changed considerably from the structure at the end of 2002. The Group had outstanding bank overdrafts of approximately HK\$113,916,000 as at 30 June 2003 (31 December 2002: HK\$8,866,000). The bank overdrafts were denominated in Hong Kong dollars and interest bearing at prevailing commercial lending rates. Listed investments belonging to clients were pledged to secure these bank overdrafts. As at 30 June 2003, the Group had outstanding unsecured loans granted from a related company of HK\$61,975,000 (31 December 2002: Nil). The loans were denominated in Hong Kong dollars, interest bearing at prime rate plus 3% per annum and repayable within one year. These loans and overdrafts were used to finance the Group's operations. We expect that all these borrowings will be repaid by internally 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Pledge of Assets

At 30 June 2003, listed investments belonging to clients with total market value of HK\$246,525,000 (31 December 2002: HK\$27,777,000) were pledged to banks to secure overdraft facilities granted to the Group.

Share Capital Structure

There was no change in the Company's share capital structure for the six months ended 30 June 2003.

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 six months ended 30 June 2003.

Human Resources

As at 30 June 2003, 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 emphasise on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2003, the interests or short positions of the Directors and chief executives and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long Position in the ordinary shares of HK\$0.1 each ("Shares") in the Company

Name of Director	Number of Shares	Type of interest	Percentage of issued share capital
To Shu Fai	449,761,127 (Note)	Interest of a controlled corporation	74.96%

Note:

These Shares were held by Kingly Profits Corporation. Mr To Shu Fai indirectly held 80% of the beneficial interest in Kingly Profits Corporation. Therefore the interest disclosed herein was deemed to be the corporate interest of Mr To.

Save as disclosed above, as at 30 June 2003, none of the Directors or chief executives, nor their associates, had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests or short positions of the following parties in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long Position in the Shares

Name of shareholders	Number of Shares	Type of interest	Percentage of issued share capital
Kingly Profits Corporation	449,761,127 (Note 1)	Beneficial owner	74.96%
King United Agents Limited	449,761,127 (Notes 1 and 2)	Interest of a controlled corporation	74.96%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

- (1) These Shares were held by Kingly Profits Corporation, which was owned as to 80% by King United Agents Limited. The interest disclosed herein was deemed to be the corporate interest of King United Agents Limited.
- (2) King United Agents Limited was wholly owned by Mr To Shu Fai, a Director and the Chairman of the Company. The interest disclosed herein is the same interest of Mr To Shu Fai as disclosed in the section headed "Directors' and Chief Executives' Interests in Securities" above.

Save as disclosed above, the register required to be kept under Section 336 of the SFO shows that as at 30 June 2003, the Company had not been notified of any other person who had an interest or short position in the shares and underlying shares of the Company.

SHARE OPTIONS

The Company has adopted a share option scheme (the "2002 Scheme") by an ordinary resolution passed on 22 November 2002.

No options have been granted under the 2002 Scheme since its adoption or during the six months ended 30 June 2003.

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 2003.

AUDIT COMMITTEE

The audit committee has discussed and reviewed this unaudited interim report with the management. The audit committee is of the opinion that the related party transactions were carried out in the Group's ordinary course of business and on normal commercial terms.

CODE OF BEST PRACTICE

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 of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive Directors were 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.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to all our shareholders, investors and business partners for their continued support and confidence in the Group. I would also like to thank our management team and staff for their efforts and significant contributions in the past and in the years to come.

By order of the Board

Chan How Chung, Victor

Director

Hong Kong, 25 September 2003