



**Rexit Berhad
Research Report**

For The Second Half Year Ended 30 June 2006

BACKGROUND ON REXIT

Rexit Berhad (“Rexit” or “Company”) group of companies (“Rexit Group” or “Group”) focuses on delivering solutions and services to the General Insurance industry. The Group has managed to attain customers ranging from the largest local insurance companies in Malaysia to multi-national insurance companies operating locally.

A major milestone was reached in January 2005 when the Malaysian Government mandated that all insurance information to be transmitted electronically to the Road Transport Department (RTD / JPJ) via the eInsurans service only and that physical cover notes were no longer in use. In conjunction with the eInsurans initiative, Rexit Group introduced its **e-Cover** portal which is an Internet-based aggregator portal that enables the purchase or renewal of insurance policies in a secured e-business environment through participating insurance agents and insurers.

Today, more than 26,000 agents, seven insurance companies, four banks and telecommunication companies are participating in the e-Cover, which the Directors believe is one of the largest e-commerce insurance portals in the country. The significant landmark of RM1 billion worth of transacted premium was attained after less than ten months of implementation.

Rexit’s revenue is based on an Application Services Provider (“ASP”) recurring income model to ensure sustainability and stability in its income stream. Currently, Rexit derives its revenue from recurring annual subscriptions, per transaction charges as well as a fee based on a percentage of the premiums transacted through its e-Cover portal.

Building on the success of its motor insurance application, there is tremendous potential for Rexit to offer to its new and existing customers the non-motor classes of insurance like Personal Accident, Fire and Foreign Workers Insurance Guarantee, by the end of 2006 as well as Life Insurance to further drive its income streams.

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FINANCIAL HIGHLIGHTS

Comparison of the first half and second half unaudited results of the financial year ended (“FYE”) 30 June 2006

	Cumulative results: 1.7.2005 to 31.12.2005 RM’000	Cumulative results: 1.1.2006 to 30.6.2006 RM’000	Percentage Change (%)
Revenue	8,257	9,495	15
Profit before tax (“PBT”)	3,319	3,280	(1)
PBT margin (%)	40.2	40.0	(1)
Profit after tax (“PAT”)	3,173	3,433	8
Gross earning per share (“EPS”) (sen)	2.34	2.31	(1)
Net EPS (sen)	2.23	2.42	9
Number of ordinary shares in issue (‘000)	142,000	142,000	-

Review of revenue and PBT

For the second half year ended 30 June 2006 (“2H2006”), the Group recorded revenue of RM9.495 million which represents approximately 15% increase as compared to the first half year ended 30 June 2006 (“1H2006”). This was mainly attributable to the increase in numbers of users for its e-Cover portal services. In addition, the number of users and transactions for other services via its e-Cover portal, such as e-Payment, Driver Passenger Personal Accident and Foreign Workers Insurance Guarantee have also increased in 2H2006 as compared to 1H2006 when these services were first launched.

Despite the increase in revenues the Group recorded a lower PBT of RM3.280 million in 2H2006 as compared to RM3.319 million in 1H2006. The decline in PBT was attributable to higher cost incurred in 2H2006 in relation to payroll and related costs resulting from recruitment of new staff in line with the expansion of the Group’s business. Nevertheless, the Group recorded 8% increase in PAT from RM3.173 million in 1H2006 to RM3.433 million in 2H2006. This was mainly attributable to a reduction in deferred tax resulting from a movement of fixed assets between Rexit’s wholly-owned subsidiaries companies, namely Rexit Solution Sdn Bhd and Rexit Software Sdn Bhd. Rexit Software Sdn Bhd is a MSC Malaysia status company and is tax exempt.

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Summary of financial results of the Rexit Group for the past four (4) financial years and the latest unaudited consolidated results for the FYE 30 June 2006

	# Proforma results of the Rexit Group				Unaudited
	< ----- FYE 30 June ----- >				FYE 30 June
	2001	2003	2004	2005	2006
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	11,316	6,483	13,790	25,257	17,752
PBT	3,009	1,588	2,116	3,269	6,599
PBT Margin (%)	26.6	24.5	15.3	12.9	37.2
PAT	2,139	1,092	1,534	3,008	6,606
Gross EPS (sen)	* 2.44	* 1.29	* 1.72	* 2.66	* 4.65
Net EPS (sen)	* 1.74	* 0.89	* 1.25	* 2.44	* 4.65
Number of ordinary shares assumed to be in issue ('000)	^ 123,080	^ 123,080	^ 123,080	^ 123,080	142,000

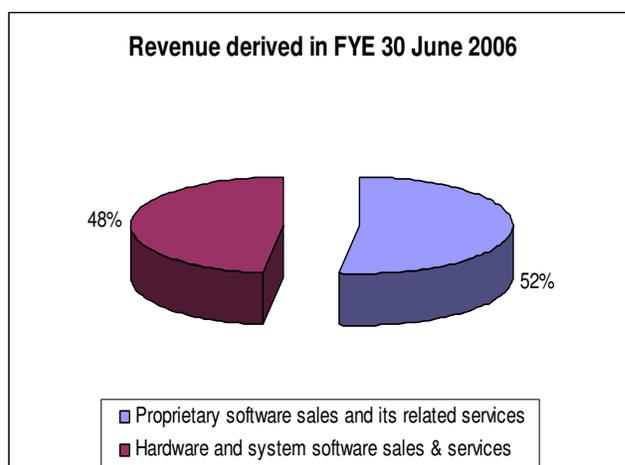
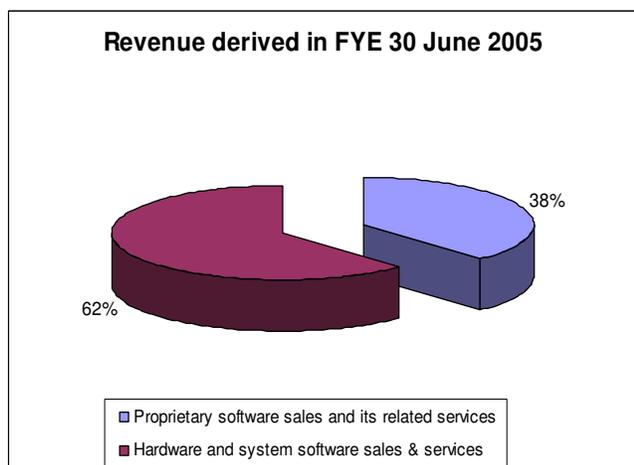
Notes:-

The summarised proforma consolidated results of Rexit Group for the past four (4) FYE ended 30 June 2005 are extracted from Rexit's prospectus dated 20 October 2005.

* The gross/ net EPS is calculated based on the proforma profit before/ after tax attributable to shareholders of Rexit Group and the number of shares assumed to be in issue

^ The number of ordinary shares in issue represents the enlarged issued and paid-up share capital of Rexit Group on completion of the acquisition of Rexit Solutions Sdn Bhd and its corporate reorganisation, but before Rexit's Public Issue (the details which are set out in Rexit's prospectus dated 20 October 2005).

The Group's PBT has increased by 102% from RM3.269 million in FYE 30 June 2005 to RM6.599 million in FYE 30 June 2006 despite the decrease in the Group's revenues of 30% from RM25.257 million in FYE 30 June 2005 to RM17.752 million in FYE 30 June 2006. This was mainly attributable to an increase in sales of proprietary software as a proportion to total sales as illustrated below:-



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It should be noted that the Group derives higher margins from software sales as compared to hardware sales. The Group's revenues from hardware is derived from the sales of hardware packaged together with its proprietary software to its customers as a value-added service. Revenue from software sales is mainly derived from the license fees for proprietary products which are licensed to its customers to give them the rights of usage including the annual license fee for registered users to access and utilize the e-Cover portal services. In addition, the users are charged a transaction fee which is a fixed fee plus a percentage of transaction value depending on the type of e-Cover portal service used.

The increased proportion of proprietary software sales from FYE 30 June 2005 to FYE 30 June 2006 is mainly attributable to the growing number of users and transactions. Most of the initial system implementation required for users to run Rexit's solutions have been completed, resulting in the decrease in hardware sales as a proportion to total sales.

OUTLOOK OF THE INDUSTRY

Outlook of Malaysian economy

Economic expansion strengthened in 2005, driven by strong domestic demand and reinforced by the improvement in external demand. For the third successive year, the private sector has continued to be the main driver of growth. The improved growth performance in the second half of 2005 is expected to be sustained in 2006 as the external environment continues to improve and as domestic demand remains robust. The growth for 2006 is expected to be supported by a more broad-based expansion in all sectors of the economy. This will strengthen further the structure of the economy and its potential for sustained growth over the medium term.

Notwithstanding the persistently high oil prices and the downturn in the global electronics cycle, real gross domestic product (GDP) expanded by 5.3% in 2005. Growth was private sector driven and was underpinned by supportive macroeconomic policies and favorable financial conditions. Private consumer demand was sustained at a strong pace while the resilience in private investment further supported economic expansion. The public sector continued to take the opportunity of a favourable environment to consolidate its finances to more sustainable levels.

The Malaysian economy is expected to strengthen further in 2006. Real GDP is projected to grow at a faster rate of 6%, driven by strengthening exports and resilient domestic demand. The global semiconductor upcycle, sustained global growth and higher prices for primary commodities are expected to have positive effects on exports, as well as private consumption and investment.

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(Source: Bank Negara Malaysia Annual Report 2005)

Outlook of general insurance industry in Malaysia

The Group has created a niche for itself in the general insurance solutions provider market and has extensive experience and in-depth knowledge of the general insurance industry. As such, the prospects of the insurance industry will have a direct impact on the prospects of the Group.

The insurance industry continued to register positive growth in 2005, buoyed by stronger growth in the general insurance sector. Combined premium income for life and general insurance business expanded by 6.9% to RM23,564.6 million (2004: 17.2% to RM22,041.9 million). Overall, operating results remained favourable for both life and general businesses, supported by improved underwriting results, higher productivity, greater economies of scale, as well as the more efficient utilisation of capital, particularly among general insurers.

The general insurance sector expanded strongly in 2005. Gross premium growth achieved 9.7% to reach RM9,386.1 million, with higher premiums recorded in all classes of business in the general insurance except for contractors' all risks (CAR) and engineering. Growth was largely boosted by the higher volume of motor insurance premiums which increased by 14.4% (2004: 6.8%), its most significant growth since 2000, following the surge in motor vehicle sales during the year to an all-time high over 550,000 units representing a 13% increase over sales in 2004. Positive consumer sentiment, an accommodative interest rate environment and aggressive sales campaigns accompanying the introduction of new models were key drivers of higher new vehicle sales. The consequential growth in motor insurance premium further strengthens its dominance of general insurance business with a higher share of 47.2% of total general premiums written.

Motor insurance business remained highly concentrated, with the top six motor underwriters continuing to secure more than half (54.3%) of total motor premiums written. Notwithstanding this, the continued robust growth of motor takaful business is expected to result in a more competitive market emerging for motor insurance business, gradually leading to a more balanced distribution between conventional premiums and takaful contributions over time.

Strong growth in marine, aviation and transit (MAT) insurance premiums which expanded by 15.3% (2004: -3.1%), largely from aviation and offshore oil-related risks, also bolstered overall growth. The fire, contractors' all risks and engineering insurance sectors, however, saw slower growth with the continued softening of premium rates on industrial fire risks and subdued construction activities during the year.

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The industry's overall net retention ratio rose for the second consecutive year to 88.8% in 2005 (2004: 87.6%), mainly due to the increase in motor business which is significantly less reliant on reinsurance support.

The overall claims ratio improved significantly to 55.4% in 2005 (2004: 60.9%), with improvements observed across the board in all classes of business. Contributing factors included smaller insured exposures, improvements in risk management and security measures put in place by risk owners, and continued underwriting discipline maintained by insurers.

Future growth prospects for the general insurance industry are expected to remain strong in 2006 with the positive outlook for the domestic economy, and stabilisation as well as some increase in premium rates anticipated for certain commercial lines of business arising from the follow-through effects of the 2005 hurricane losses in the United States.

(Source: Bank Negara Malaysia Insurance Annual Report 2005)

RECENT DEVELOPMENT AND FUTURE PROSPECTS OF REXIT

Building on the momentum of electronic cover notes for motor insurance, and in meeting the demands from the Insurers and their agents for more functionalities, Rexit Group has expanded and will continue to add the functionalities to other classes of general insurance such as:

- Drivers Passenger and Personal Accident (DPPA)
- Foreign Workers Insurance Guarantee (FWIG)
- Fire
- Marine
- Travel PA

This will help to reduce reliance on motor insurance premium as a source of revenue.

Rexit Group has also increased its value-added functionalities to facilitate end-to-end solutions to include:

- Electronic Payment
- No Claim Discount (NCD) enquiries
- Electronic Hire Purchase (e-HP) processing
- SMS enquiries

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All the above features are running off a common platform so that the learning curve is minimised and all the transactions can be executed from a single environment – the **e-Cover** – the heart of all transactions.

The introduction of the Electronic Hire Purchase is part of Rexit Group's efforts to further extend the applications of its e-Cover portal services towards providing comprehensive financial services. It enables the complete paperless transaction from motor-financing to insurance coverage and issuance of Road-Tax Certificates utilising single source of data-entry. This improves the efficiency and traceability of the process for hire purchase operations especially in terms of a substantially reduced turnaround time for the processing of applications.

The commendable uptake and adaptations of **e-Cover** by the users as can be seen by the increasing number of users and services for the e-Cover portal are due to Rexit Group providing functionalities that are relevant to them, meeting their requirements, and are easily accessible via the Internet on a 24X7 basis. It enables the users to concentrate on the customers and acquiring new businesses as the production and tasks are monitored automatically by the system. Other tools such as convenient electronic payments and business letter templates help to improve their efficiencies. Rexit Group has moved forward and will continue to advance in implementing new features and facilities to help move its customers further into the realm of e-commerce and expanding online opportunities for them.

In order to grow its market share regionally, PT Rexit Indonesia ("PT Rexit"), a 51% owned joint venture company of Rexit, is currently providing Rexit's IT application solutions and services to PT Asuransi Sinar Mas, one of the largest insurance companies in Indonesia. The Group is also planning to establish a business joint venture with Marubeni Corporation of Japan ("Marubeni") to market, promote and supply Rexit's software products and services to customers outside Malaysia. Upon successful signing of the joint venture agreement, the Group will be able to leverage on Marubeni's established global networks and accelerate its international sales growth. This provides the Group with a strong platform to penetrate the global markets.

The updates of corporate development and major sales concluded by the Company after 1H2006 are set out as follows:-

- (a) E-Cover Agreement signed with Commerce Assurance Berhad to provide e-Cover portal services. The value of the deal is charged based on annual subscription per agent, plus additional charges based on business transactions. Commerce Assurance Berhad has about 2,000 agents;

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- (b) E-Cover Electronic Hire Purchase Agreement signed with AmBank (M) Berhad (“AmBank”) to enable AmBank's hire purchase applications to be processed electronically via the Internet through Rexit's e-Cover portal;
- (c) Joint venture with PT Swadayanusa, to form a joint venture company, PT Rexit to undertake the business of providing information technology services to the financial and insurance industry in the Republic of Indonesia. PT Rexit has been incorporated on 11 May 2006 and commenced operations in August 2006;
- (d) Received a letter of undertaking from PT Asuransi Sinar Mas, one of Indonesia's largest insurance companies, to outsource its IT operations to PT Rexit. PT Rexit has started work on the development, customisation and implementation of the web-based health claims management system for PT Asuransi Sinar Mas;
- (e) Implemented a bonus issue of 47,333,333 Bonus Shares credited as fully paid-up on the basis of one (1) new Bonus Share for every three (3) existing Shares held to the registered shareholders of the Company whose names appear in the Record of Depositors of the Company at the close of business on 3 July 2006. The Proposed Bonus Issue was completed and the additional 47,333,333 Bonus Shares were granted listing and quotation on 18 July 2006; and
- (f) Entered into a Memorandum of Understanding (“MOU”) with Marubeni to collaborate to market, promote and supply Rexit's software products and services to customers outside Malaysia. Marubeni and Rexit are currently in negotiations on the contractual terms for the joint venture agreement. Further details will be announced in due course after the agreement is finalised.

Moving forward, the Group will continue to remain focused in developing insurance products and other services via its e-Cover portal based on the ASP model.

Based on the favourable growth in the general insurance sector as mentioned in the section of Industry Outlook and the Group's continuous development of e-Cover portal product and services and expansion plan as mentioned above, the Board of Directors of Rexit believe that the Group's prospects for the financial year ending 30 June 2007 will remain bright.

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BUSINESS DEVELOPMENT PLAN AND FINANCIAL IMPACT

The Group's growth premised upon the growth of its local market expansion and overseas market penetration are set out as follows:-

a. Local market expansion

The business development activities of the Group are to secure new businesses from its existing customers who utilise Rexit's e-Cover portal primarily for motor insurance business by promoting its other products, such as non-motor insurance and non-insurance but financial related services products. The Group will make every effort to secure new customers by promoting its e-Cover portal. Rexit has incurred a total of RM0.4 million for sales and marketing for the 2H2006. The Group expects its e-Cover portal and IIMS to further enhance revenue.

Rexit's e-Cover services are mainly catered for motor insurance in the FYE 30 June 2006. During the 2H2006, the Group continued its effort in conducting research and development ("R&D") efforts to enhance existing products in response to technological advancements and customer requirements and further broadens the services and applications offered by the e-Cover portal to include non-motor insurance and other financial related services. These R&D activities are described in the R&D section of this report and are expected to strengthen the Group's revenue base.

The e-Cover platform has been proven operationally for the last eighteen (18) months and has regularly tested and audited to ensure high availability and reliability. It has also met the stringent guidelines of the relevant authorities in terms of security and data integrity. Rexit intends to entrench its position as a key Shared Services and Outsourcing (SSO) partner of choice by building on the tried and tested e-Cover technology and know-how. Rexit plans to introduce valued-added shared services in 2007 to include call centre services like customer servicing, renewal reminders, telepayments, membership data management services, etc, both to the insurance sector as well as to the other financial sectors, to further expand its revenue streams.

b. Overseas market penetration

The Rexit Group will continue to expand into the ASEAN region by first working with its existing clients that have operations overseas or intend to have operations abroad. The Rexit Group has

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commenced development of similar products via the e-Cover portal for the Thai market in 1H2006. The said e-Cover portal is currently at the development stage.

During the 2H2006, the Group has successfully tapped into overseas market by setting up a joint venture company, PT Rexit. PT Rexit will provide the general insurance system to PT Asuransi Sinar Mas, the insurance arm of Sinar Mas Group, which is one of the largest conglomerates in Indonesia. Rexit has also entered into a MOU with Marubeni for a proposed of a joint venture. The said joint venture will provide a direct channel for the Group to market and promote Rexit's products and services outside Malaysia.

Based on the foregoing, the Board of Directors of Rexit is of the view that the business development plan of the Group is being carried out as planned and the successful implementation of the business development is expected to contribute positively to the earnings of the Group.

R&D

During the 2H2006, Rexit's R&D efforts are mainly to expand and extend the services offered by the e-Cover portal currently as set out below:-

- a. To expand its applications via e-Cover portal to non-motor classes to facilitate other classes of business in the general insurance sector on top of the motor business. The progress of the development of non-motor classes are set out below:-

Launched Products in 1H2006	Launched Products in 2H2006	Products to be launched
e-Cover : DPPA (Driver Passenger Personal Accident) e-Cover : FWIG (Foreign Workers Insurance Guarantee)	e-Cover : Travel PA (Travel Personal Accident)	e-Cover : NCD (No Claims Discount) e-Cover : Fire e-Cover : Workmen e-Cover : Health e-Cover : PA (Personal Accident) e-Cover : Marine

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Full applications for all non-motor classes are expected to be rolled out by end of 2006.

- b. To extend Rexit's services via the e-Cover portal to other financial related services such as e-Hire Purchase, e-Payment, web hosting and call center for insurance helpline and renewals as set out below:-

Launched Products in 1H2006	Launched Products in 2H2006	Under R&D	Future R&D
e-Payment	e-Hire Purchase	Web hosting	Call center for insurance helpline and renewals

Rexit views that continuous update and improvement of the said financial related services is essential towards providing comprehensive financial services.

The Group has spent a total of over RM10 million in R&D expenditure since its incorporation in 1998. The Group's budgeted R&D expenditure for the financial year ending 30 June 2007 is approximately RM3 million which will be funded partly from the proceeds from its Initial Public Offering ("IPO") exercise and partly from the internally generated funds.

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TOP 10 SHAREHOLDERS AS AT 26 JULY 2006

No.	Name of shareholders	No of shares held	Percentage (%)
1	Rexit Venture Sdn Bhd	92,310,027	48.76
2	HSBC Nominees (Asing) Sdn Bhd Beneficiary: Clariden BK Zurich for Glenross Trade and Finance Inc	8,600,000	4.54
3	HSBC Nominees (Asing) Sdn Bhd Beneficiary: Exempt An for Credit Suisse	6,875,227	3.63
4	HSBC Nominees (Asing) Sdn Bhd Beneficiary: Grenfell Assets Limited	6,666,667	3.52
5	HSBC Nominees (Asing) Sdn Bhd Beneficiary: Densfield Capital Corp	6,332,000	3.34
6	Chung Hon Cheong	5,923,334	3.13
7	HSBC Nominees (Asing) Sdn Bhd Beneficiary: Dextron Worldwide Inc	5,915,067	3.12
8	Citigroup Nominees (Asing) Sdn Bhd Beneficiary: UBS AG Singapore for Gallen Group Limited	5,333,334	2.82
9	HSBC Nominees (Tempatan) Sdn Bhd Beneficiary: HSBC (M) Trustee Bhd for OSK-UOB Small Cap Opportunity Trust (3548)	5,000,000	2.64
10	DB (Malaysia) Nominees (Tempatan) Sdn Bhd Beneficiary: Presidio Investments Limited	4,693,334	2.48

FINANCIAL FORECAST

Not applicable as no profit forecast was disclosed in Rexit's prospectus.

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UTILISATION OF PROCEEDS

As at 30 June 2006, Rexit had utilised approximately 56% of the proceeds raised from its IPO exercise. The breakdown of the utilisation of the listing proceeds is set out in table below.

	Proposed utilisation proceeds*	Amount utilised as at 30 June 2006	Transfer**	Amount outstanding	Expected timeframe for utilisation*
	RM'000	RM'000	RM'000	RM'000	
R&D	2,000	1,351	0	649	End of 2006
Working capital	2,454	556	112	2,010	End of 2006
Estimated listing expenses	1,600	1,488	(112)	-	-
	6,054	3,395	0	2,659	

Notes:-

* *Proposed utilisation as set out in Rexit's prospectus dated 20 October 2005.*

** *The unutilised listing expenses of approximately RM112,000 is transferred to working capital.*

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