MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Our financial year 2001/2002 was set against the back drop of a global economic downturn and obviously the aftermath of the September 11th terrorist incident had only added salt to the wounds of our global economy. Against such a background, 2001 was a very tough year for information technology players. Our Group was no exception.

Due to the uncertainty in our business created by the global economic slowdown, our Group has taken a cautious approach and put our further investment on hold. In addition, a further provision of HK$33,150,000 has been made against our Group's equity investment in the telecommunications sector. Furthermore, active steps have been taken by our Group to streamline our business and reduce our operating costs.

As business enterprises simply cut back their IT spending for the year under review, our Group's data center business showed clear signs of weakness. High operating costs required for maintaining top-end data management services meant that the Group's data center business will face a highly uncertain economic future and as such, our Group made a decision to close down the data center operation in Hong Kong in order to reduce operating costs.

PROSPECTS

A significant step for the Group this year was the change of the substantial shareholder. In March 2002, Mega Market Assets Limited ("Mega Market") which is beneficially owned by Mr Chan How Chung, Victor ("Mr Chan") purchased 2,710,520,000 shares from Shine United International Inc and Uprising Enterprise Inc, the substantial shareholders of the Group. Upon completion of the purchases, Mega Market directly held 21.79% interest in the Company while Mr Chan indirectly held 23.63% interest in the Company, which included the 21.79% interest held by Mega Market. Thus, Mr Chan became the single largest shareholder of the Group.

Subsequently, the Company, in May 2002, changed its name from HiNet Holdings Limited to REXCAPITAL International Holdings Limited and adopted the Chinese name of 御泰國際控股有限公司. This move clearly signifies a step towards restructuring the Group's business portfolio. In June 2002, Mr Chan and Miss Lee Huei Lin, Elizabeth ("Miss Lee") were appointed as Chairman and executive director of the Company respectively. In his capacity as Chairman, Mr Chan oversees the overall operations and business development. Miss Lee is responsible for daily operations and corporate development for the Group.

With the new chairman and directors on board, management will take a more proactive but cautious approach towards consolidating its existing business and looking for new business opportunities and investments thereby providing a solid foundation for the Group's future business development.

Fibre-Optic Networking Business

The construction of the Group's nationwide fibre-optic network was completed substantially in the previous financial year. The network has a total fibre core length of over 12,000 km and is composed of three main routes. It connects all the major cities in the PRC, which account for almost 40% of the total population.

In recent years, PRC remains one of the fastest-growing telecom service markets. Upon the accession of the PRC to the World Trade Organisation, increased foreign investment is expected to flow into the PRC creating greater demand for telecommunications services. Therefore, further growth in the market is expected. Backed by a well-established network and good working relationships with our business partners, the Group is committed to further expanding its fibre-optic networking business within the PRC and to other Asian countries.

Technology Related Business

To achieve the goal of becoming a leading telecommunications service provider, the Group acquired an internet and communications company in April 2002, which specialises in providing VPN service: a hassle-free one-stop, end-to-end comprehensive network solution. The Group's VPN is to give customers the same capabilities with high quality, but at a much lower cost, allowing them to enjoy cost effective and efficient services. This is done by using our privately shared cross border network infrastructure.

Our new network-based IP-VPN service provides the flexible connectivity between Hong Kong and other major cities in the southern part of the PRC, such as Guangzhou, Dongguan and Shenzhen. We target to offer secure and reliable service to overseas enterprise of all sizes with factories, manufacturing plants or branch offices in the PRC that have mission-critical telecom requirements. The Group is currently negotiating with potential business partners in order to develop value-added applications and equipment to support the VPN services.

Using skilled professionals, a highly secure and efficient network, and strategic partner relations with telecommunication operators and ISPs in Hong Kong and other major cities in the PRC, (including Dongguan, Guangzhou and Shenzhen), the Group will continue to explore business opportunities in the Greater China Region. We will focus on the coastal areas of Shanghai, Hong Kong and other nearby regions in Asia such as Taiwan, in order to provide the best-in-class telecommunications services and solutions.

Strategic Investments

The current management realised the need to diversify the Group's business portfolio and strengthen its competitiveness in the current economic environment. Bringing to bear their experience in enterprise building and incubation, the Group has set up a strategic investment team to explore new investment opportunities on projects that can lead to increased returns. These projects involve participating in direct investment, asset management, debt asset restructuring, corporate restructuring and privatisation mainly in the Pan Asia and the Greater China Region. Drawing on the experience and expertise of our existing management team, we are confident that this move will contribute positively to the Group's results in the near future.

Looking ahead, we are committed to taking all necessary actions to enhance cost effectiveness and to optimise resource allocation in order to build a solid platform for the growth of the Group.

FINANCIAL REVIEW

Results

For the year ended 31 March 2002, the Group recorded a turnover of HK$5,543,000 (2001: HK$25,070,000). Loss attributable to shareholders was HK$364,875,000 (2001: HK$744,498,000 as restated). The basic loss per share decreased from 8.0 cents to 3.3 cents.

During the year under review, the Group disposed of a number of loss-making or dormant subsidiaries which gave rise to a gain on disposal of subsidiaries of HK$3,395,000.

Due to the declining price of the leaselines in the PRC, the Group has taken a cautious measure to write down the value of its fibre-optic network by HK$305,000,000.

Significant Investments Held

During the year ended 31 March 2002, the Group disposed of its 21.8% equity interest in Kanssen Limited to an independent third party at a consideration of HK$56,000,000. This gave rise to a gain on disposal of investment securities of HK$14,000,000.

Due to the adverse market atmosphere in the IT industry, the Group made a full provision of additional HK$33,150,000 against an investment in the equity of a telecommunications company during the year under review.

Capital Structure, Financial Resources and Liquidity Position

During the year ended 31 March 2002, the Company raised HK$100,000,000 by issuing a 5% 3 years convertible bonds to an independent third party. Up to the date of this report, the convertible bonds in the amount of HK$51,000,000 have been converted into the Company's shares. The proceeds were utilized to reduce the long term liabilities. This move successfully reduced the interest burden borne by the Group.

In August 2001, the Company undertook a capital reorganisation. The reorganisation included firstly a share subdivision that one Company's share of HK$0.10 each was subdivided into 2 subdivided shares of HK$0.05 each; secondly the nominal value of each of the subdivided shares in issue was reduced from HK$0.05 each to HK$0.01 each while each unissued subdivided share of HK$0.05 each was further subdivided into five shares of HK$0.01 each. At the same time, the Company adopted a new bye-laws. The new bye-laws contains provisions which are relevant to the administration and operation of the Company and its business, and additional protection to the shareholders of the Company which were not covered by the old bye-laws.

At 31 March 2002, the Group had a total of HK$187,000 in cash, compared with HK$1,500,000 as at 31 March 2001. Net cash outflow from operating activities for the year ended 31 March 2002 was HK$15,899,000 as compared to HK$53,377,000 for the year ended 31 March 2001.

The Group had outstanding unsecured other loans of HK$97,164,000 as at 31 March 2002. The loans were denominated in Hong Kong dollars, unsecured and interest bearing at prevailing commercial lending rates. These loans were used to finance the operations and the development of the fibre-optic network of the Group.

The Group faced a relatively tight liquidity position during the year since the major operating assets of the Group, the fibre-optic network, was not able to contribute towards the cash flow of the Group. The gearing ratio of the Group increased to 92% as at 31 March 2002 from 50% as at 31 March 2001 (it is derived by dividing the aggregate amount of bank borrowings, convertible bonds and other borrowings by the amount of shareholders' equity).

Funding Strategy and Foreign Exchange Exposure

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy of using equity as far as possible to finance long-term investments.

The Group's exposure to foreign currency is mainly in Renminbi. The Group does not foresee a substantial exposure to fluctuations in exchange rate since Renminbi is relatively stable in relation to other currencies, thus the Group does not commit in any exchange rate hedges.

Human Resources

As at 31 March 2002, the Group had 17 full time employees.

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