REXCAPITAL International Holdings Limited

Incorporated in Bermuda with limited liability

Interim Report 2002/2003

The board of directors (the "Directors") of REXCAPITAL International Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the six months ended 30 September 2002
(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2002	2001
		(Unaudited)	(Unaudited)
	Note	***$'000***	*$'000*
Turnover	*2*	**64,437**	5,133
Other net income	*3*	**158**	2,689
Cost of other investments sold		**(38,751)**	—
Staff costs		**(1,652)**	(7,988)
Depreciation		**(364)**	(7,221)
Net unrealised loss on other investments		**(250)**	—
Other operating expenses		**(7,294)**	(15,675)
Profit/(loss) from operations		**16,284**	(23,062)
Net finance costs	*5(a)*	**(3,355)**	(9,262)
Non-operating expenses, net	*4*	**(2,025)**	(32,020)
Profit/(loss) from ordinary activities before taxation	*5*	**10,904**	(64,344)
Taxation	*6*	**—**	—
Profit/(loss) attributable to shareholders		**10,904**	(64,344)
Earnings/(loss) per share			
— Basic	*8(a)*	**$0.013**	$(0.123)
— Diluted	*8(b)*	**$0.012**	N/A

The notes on pages 5 to 20 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2002
(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2002	2001
		(Unaudited)	(Unaudited)
	Note	***$'000***	*$'000*
Balance as at 1 April		**198,339**	512,214
Net profit/(loss) for the period		**10,904**	(64,344)
Issues of share capital			
— new shares under conversion of convertible bonds	*14(b)*	**—**	20,000
— new shares on subscription	*15(c)*	**108,843**	—
Balance as at 30 September		**318,086**	467,870

The notes on pages 5 to 20 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
as at 30 September 2002
(Expressed in Hong Kong dollars)

	Note	At 30 September 2002 (Unaudited) $'000	At 31 March 2002 (Audited) $'000
Non-current assets			
Fixed assets		**397,045**	397,156
Current assets			
Other investments	9(b)	**16,500**	—
Trade and other receivables	10	**301**	1,064
Cash and cash equivalents	11	**20,194**	187
		36,995	1,251
Current liabilities			
Trade and other payables	12	**(19,009)**	(18,143)
Dividends payable		**(286)**	(286)
Bank loans and overdrafts	13(a)	**(8,106)**	(11,107)
Other loans, unsecured	13(b)	**(38,922)**	(97,164)
Convertible bonds	14	**(631)**	(23,614)
Obligations under finance leases		**—**	(91)
		(66,954)	(150,405)
Net current liabilities		**(29,959)**	(149,154)
Total assets less current liabilities		**367,086**	248,002
Non-current liabilities			
Obligations under finance leases		**—**	(32)
Convertible bonds	14	**(49,000)**	(49,631)
		(49,000)	(49,663)
NET ASSETS		**318,086**	198,339
CAPITAL AND RESERVES			
Share capital	15	**9,329**	124,383
Reserves	16	**308,757**	73,956
		318,086	198,339

The notes on pages 5 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 September 2002
(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2002	2001
	(Unaudited)	(Unaudited)
	$'000	*$'000*
Net cash used in operating activities	**(2,162)**	(8,124)
Net cash provided by/(used in) investing activities	**244**	(1,147)
Net cash provided by financing activities	**23,249**	8,585
Increase/(decrease) in cash and cash equivalents	**21,331**	(686)
Cash and cash equivalents at 1 April	**(7,805)**	(6,521)
Cash and cash equivalents at 30 September	**13,526**	(7,207)
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**20,194**	788
Bank overdrafts	**(6,668)**	(7,995)
	13,526	(7,207)

The notes on pages 5 to 20 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Significant accounting policies

(a) Basis of preparation

This interim financial report is unaudited, but has been reviewed by the Company's Audit Committee. The unaudited interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information relating to the financial year ended 31 March 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2002, on which the auditors have expressed an unqualified opinion on those financial statements in their report dated 19 July 2002, are available from the Company's principal office in Hong Kong.

The same accounting policies adopted in the annual financial statements for the year ended 31 March 2002 have been applied to the interim financial report except as disclosed under notes 1(b) and 1(c).

The notes on the interim financial report include an explanation of events and transactions that the Directors consider are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 2002.

The Group operates in the telecommunication infrastructure sector in Hong Kong and other regions in the People's Republic of China ("the PRC") and is subject to special risks due to the development cost and time involved and fast-changing environment of the sector. As a development stage enterprise, the sustainability of the Group is dependent on its ability to successfully implement its business development plans, which are dependent on, among things, adequate financing being continuously available to the Group to fund the developing operations, before sufficient cash flows are generated from such operations. The Directors have evaluated all the relevant facts available to them, including the undertaking from a major shareholder to provide financial support to the Group, and are of the opinion that there do not exist any material adverse conditions precluding the Group from implementing its business development plans. Accordingly the interim financial report has been prepared on a going concern basis.

The interim financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary should the going concern basis not be applicable.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

1. Significant accounting policies *(continued)*

(b) Adoption of new accounting standards in Hong Kong

The following new SSAPs issued by the HKSA, which became effective for accounting period beginning on or after 1 January 2002, were adopted for preparation of the Group's financial statements for the six months ended 30 September 2002:

— SSAP 1 (revised) "Presentation of financial statements"
— SSAP 15 (revised) "Cash flow statements"

(i) Adoption of SSAP 1 (revised) "Presentation of financial statements"

In order to comply with the revised requirement of SSAP 1 (revised), the Group adopts the new statement "Consolidated Statement of Changes in Equity" which replaces the "Consolidated Statement of Recognised Gains and Losses" included in previous financial statements.

(ii) Adoption of SSAP 15 (revised) "Cash flow statements"

The format of the condensed consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised).

(c) The following additional accounting policies have been adopted in respect of the sale and purchase of other investments engaged by the Group for the six months ended 30 September 2002.

(i) Investments in securities

Securities classified as other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as other investments when they are acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

Investment securities held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

1. Significant accounting policies *(continued)*

(c) *(ii)* *Revenue recognition*

Other investments

Proceeds from disposal of other investments are accounted for on a trade date basis.

2. Segmental information

Segmental information is presented in respect of the Group's business and geographical segments. Business segments information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. The Group has undertaken a realignment of its business activities and resulted in the combination of the business segments of telecommunications and technology-related services, and leasing of fibre-optic as one segment. The Directors considered that such presentation is more relevant to the Group's business.

Business segments

The Group comprises the following main business segments:

	Telecommunications and technology-related services		Strategic investments and capital market activities		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Six months ended 30 September (unaudited)								
Revenue from external customers	**1,575**	5,133	**62,862**	—	**—**	—	**64,437**	5,133
Segment result	**(2,218)**	(15,041)	**21,316**	—	**—**	—	**19,098**	(15,041)
Unallocated operating income and expenses							**(2,814)**	(8,021)
Profit/(loss) from operations							**16,284**	(23,062)
Net finance costs							**(3,355)**	(9,262)
Non-operating expenses, net	**—**	—	**—**	—	**(2,025)**	(32,020)	**(2,025)**	(32,020)
Profit/(loss) from ordinary activities before taxation							**10,904**	(64,344)
Taxation							**—**	—
Profit/(loss) for the period							**10,904**	(64,344)
Depreciation and amortisation for the period	**336**	7,057	**—**	—	**28**	164	**364**	7,221
Capital expenditure incurred during the period	**270**	1,355	**—**	—	**8**	8	**278**	1,363

The Group does not have any inter-segment sales during both periods.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

2. Segmental information *(continued)*

Geographical segments

The Group participates in two principal economic environments: Hong Kong and other areas of the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Capital expenditures are based on the geographical location of assets.

	Hong Kong		Other areas of the PRC		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**1,575**	5,133	**62,862**	—	**64,437**	5,133
Segment result	**(2,423)**	(8,851)	**21,521**	(6,190)	**19,098**	(15,041)
Capital expenditure incurred during the period	**278**	1,356	**—**	7	**278**	1,363

3. Other net income

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
Write-back of provisions in respect of a de-consolidated subsidiary	**—**	3,835
Bad debts recovery	**—**	745
Gain/(loss) on disposal of fixed assets	**156**	(1,891)
Others	**2**	—
	158	2,689

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

4. Non-operating expenses, net

		Six months ended 30 September	
		2002	2001
	Note	***$'000***	*$'000*
Gain on disposal of subsidiaries	*4(a)*	**(418)**	(1,130)
Impairment losses on goodwill	*4(b)*	**2,443**	—
Provision for diminution in value of investment securities		**—**	33,150
		2,025	32,020

(a) Disposal of subsidiaries

On 2 May 2002, the Group sold its wholly-owned subsidiary, Maxgrace International Limited, to independent third parties. This transaction gave rise to a profit of $358,000 and a net cash inflow of $2 to the Group. The net liabilities of the subsidiary as at the date of disposal were $12,644,000 including an amount due to the Group of $12,286,000.

During the period, the Group deregistered certain subsidiaries and recorded an aggregate gain of $60,000 to the Group. The net liabilities in aggregate of these subsidiaries as at the date of deregistration were $275,000 including an aggregate amount due to the Group of $215,000.

(b) Impairment losses on goodwill

The Directors consider that there are indications of impairment of goodwill arising from the acquisitions of two subsidiaries namely, Wellrose Profits Limited and ChinaInfohighway Hong Kong Limited, at a consideration of $1 during the period. These two subsidiaries are mainly engaged in the provision of telecommunications and technology-related services during this period. In view of the current global economic contraction and the anticipated keen competition in this industry, the Directors have carried out a review of the recoverable amount of the goodwill, taking into account the uncertainties surrounding the business plan of these subsidiaries and expected future cash flows from the subsidiaries. Based on the Directors' assessment, a full provision of $2,443,000 for impairment losses on goodwill is considered necessary.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

5. Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 September	
	2002	2001
	$'000	*$'000*
(a) Net finance costs/(income):		
Interest income	**(2)**	(1,703)
Interest on bank loans and overdrafts and other loans repayable within five years	**3,281**	10,954
Finance charges on obligations under finance leases	**1**	11
Other charges	**75**	—
	3,357	10,965
Net finance costs	**3,355**	9,262
(b) Other items:		
Retirement benefit scheme contributions	**9**	332
Operating lease charges in respect of properties	**335**	3,037
Depreciation		
— owned fixed assets	**356**	7,169
— assets held under finance lease	**8**	52

6. Taxation

(a) No provision for Hong Kong Profits Tax and overseas taxation have been made as the subsidiaries either sustained a loss or do not have any assessable profits for Hong Kong Profits Tax purposes and overseas tax purposes for both six-month periods ended 30 September 2001 and 2002.

(b) No deferred tax asset in respect of unutilised tax losses carried forward, which are available to set off against future assessable profits, has been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

7. Dividend

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2002 (2001: Nil).

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

8. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of $10,904,000 (2001: loss of $64,344,000) and on the weighted average number of 864,054,000 ordinary shares (2001: 523,205,000 restated) in issue during the six months ended 30 September 2002.

The weighted average number of shares outstanding for the six months ended 30 September 2001 has been retrospectively adjusted for the effects of the open offer (note 15(c)) and capital reorganization (note 15(d)) during the period ended 30 September 2002.

(b) Diluted earnings/(loss) per share

Diluted earnings per share is calculated based on the Group's adjusted profit attributable to shareholders of $12,132,000 and the weighted average number of 1,034,249,000 ordinary shares after adjusting for the effects of all potential dilutive ordinary shares for the six months ended 30 September 2002.

Diluted loss per share for the six months ended 30 September 2001 was not shown as the potential ordinary shares were anti-dilutive.

(c) Reconciliation for diluted earnings per share

	Six months ended 30 September 2002 ***$'000***
Net profit attributable to shareholders used in calculating basic earnings per share	**10,904**
Deemed interest expense saved as a result of the conversion of the dilutive potential ordinary shares	**1,228**
Net profit attributable to shareholders used in calculating diluted earnings per share	**12,132**

	Six months ended 30 September 2002 Number of shares ***'000***
Weighted average number of ordinary shares used in calculating basic earnings per share	**864,054**
Deemed issue of ordinary shares for no consideration	**170,195**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,034,249**

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

9. Investments in securities

(a) Non-current investment

	At 30 September 2002 $'000	At 31 March 2002 $'000
Unlisted investment securities (at cost)	**109,200**	109,200
Less: Provision for diminution in value	**(109,200)**	(109,200)
Unlisted investment securities (at net book value)	**—**	—

(b) Current investment

	At 30 September 2002 $'000	At 31 March 2002 $'000
Other investments — listed securities in Hong Kong (at market value)	**16,500**	—

10. Trade and other receivables

An aging analysis of trade receivables included in trade and other receivables is as follows:

	Note	At 30 September 2002 $'000	At 31 March 2002 $'000
Within 3 months		**132**	44
More than 3 months but less than 12 months		**47**	240
Total trade receivables	*10(a)*	**179**	284
Deposits, prepayments and other receivables	*10(b)*	**122**	780
		301	1,064

Notes:

(a) The credit terms granted to customers by the Group range from 14 days to 90 days.

(b) All of the deposits, prepayments and other receivables are expected to be recovered within one year.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

11. Cash and cash equivalents

	At 30 September 2002 $'000	At 31 March 2002 $'000
Cash at bank and in hand	**20,194**	187

12. Trade and other payables

	At 30 September 2002 $'000	At 31 March 2002 $'000
Trade payables	**252**	126
Other payables and accrued charges	**18,757**	18,017
	19,009	18,143

All the trade and other payables are expected to be settled within one year.

13. Bank loans and overdrafts and other loans

(a) Bank loans and overdrafts are unsecured and repayable within 1 year or on demand.

(b) Other loans are unsecured, interest bearing at prime rate plus 3% per annum and have no fixed repayment terms.

14. Convertible bonds

	Note	At 30 September 2002 $'000	At 31 March 2002 $'000
Short term			
4% convertible bonds	*14(a)*	**631**	23,614
Long term			
4% convertible bonds	*14(a)*	**—**	631
5% convertible bonds	*14(b)*	**49,000**	49,000
		49,000	49,631

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

14. Convertible bonds *(continued)*

Notes:

(a) The convertible bonds ("4% Bonds") bear interest at a fixed rate of 4% per annum payable bi-annually. During the period, part of the 4% Bonds of $23,614,000 were repaid in full to bondholders as none of them were converted into ordinary shares of the Company.

The remaining of $631,000 are convertible after 14 April 2002 but on or before 13 April 2003 into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of $0.10 per share (the "4% Conversion Price"). As a result of a capital reorganization and the open offer on 13 August 2001 and 8 May 2002 (note 15(c)), respectively, the 4% Conversion Price has been adjusted to $0.05 per share. As a result of the capital reorganization (note 15(d)) on 30 July 2002, the 4% Conversion Price was adjusted to $1 per ordinary share.

In the event of full conversion of the 4% Bonds at the adjusted 4% Conversion Price, 631,000 new ordinary shares of the Company would be issued. These 4% Bonds, if not converted into ordinary shares by 13 April 2003, will be repaid to bondholders.

(b) The convertible bonds ("5% Bonds") of $100,000,000 which were issued on 26 June 2001 bear interest at a fixed rate of 5% per annum payable bi-annually. The 5% Bonds are convertible on any business day, prior to 5 business days on or before 25 June 2004 into ordinary shares of the Company. The 5% Bonds were convertible into ordinary shares of the Company at the lower of the fixed conversion price, subject to adjustment in certain events, of $0.10 per share (the "5% Conversion Price"), and the floating conversion price (being 93% of the arithmetic average of any 4 closing prices per share during the 20 consecutive trading days immediately prior to the relevant exercise date), provided that such price shall exceed the nominal value of the ordinary share, otherwise the conversion price shall be the nominal value of the ordinary shares.

After the capital reorganization in August 2001, the 5% Conversion Price was revised to $0.05 per share.

As a result of the open offer in May 2002 (note 15(c)), the 5% Conversion Price was further adjusted to $0.04 per share. As a result of the capital reorganization on 30 July 2002 (note 15(d)), the 5% Conversion Price was adjusted to $0.80 per ordinary share.

Up to the year ended 31 March 2002, conversion rights of the 5% Bonds in aggregate amount of $51,000,000 were exercised.

In the event of full conversion of the remaining $49,000,000 5% Bonds at the adjusted 5% Conversion Price, 61,250,000 new ordinary shares of the Company will be issued. These 5% Bonds, if not converted into ordinary shares by 5 business days prior to 25 June 2004, will be repaid to the bondholder.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

15. Share capital

	Note	Number of shares '000	$'000
Issued and fully paid:			
At 1 April 2002		12,438,299	124,383
Issue of new shares on subscription	15(c)	6,219,150	62,192
Capital reorganization	15(d)	(17,724,577)	(177,246)
At 30 September 2002		932,872	9,329

(a) Warrant subscription rights

Pursuant to an ordinary resolution passed on 10 January 2000, a bonus issue of warrants was issued to the Company's shareholders at 31 January 2000, in the proportion of one warrant for every five shares of $0.10 each, entitling the holders thereof to subscribe in cash for new shares at an initial subscription price of $0.38 per share up to 3 February 2003.

After a capital reorganization in August 2001, the subscription price was adjusted to $0.19 per share. As a result of an open offer on 8 May 2002 (note 15(c)), the subscription price was further adjusted to $0.18 per share. Effective from the capital reorganization on 30 July 2002 (note 15(d)), the subscription price was adjusted to $3.60 per ordinary share.

(b) Share options

Pursuant to a special general meeting held on 29 July 2002, the Company passed a resolution to terminate the share option scheme (the "Old Scheme"), which was adopted on 30 June 2000. The new share option scheme (the "New Scheme") was adopted in order to comply with recent changes to the Listing Rules with respect to share option scheme.

Upon termination of the Old Scheme, 9,829,000 outstanding share options lapsed as the relevant grantees have unconditionally and irrevocably consent to waive their exercise rights previously granted by the Company.

Under the New Scheme, the Directors are authorised, at their discretion, to offer eligible participants, being employees (whether full time or part time), business consultants, agents, financial or legal advisors whom the Directors consider, in sole discretion, have contributed to the Group, options to subscribe for new shares.

Under the New Scheme, the Directors are authorised to determine the subscription price for a share granted to eligible participants at absolute discretion. 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 on the date of offer, 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 for the five business days immediately preceding the date of offer; and (c) the nominal value of a share.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

15. Share capital *(continued)*

(b) Share options *(continued)*

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any requirements at the time of granting any particular option. Upon acceptance of the option, the grantee is required to pay a consideration of $1.00 for each lot of share options granted on or before the 30 days after the option is offered.

The period within which the shares must be taken up under an option will be determined by the Directors at their discretion but will not be later than 10 years after the date of adoption of the New Scheme.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme, and any other schemes, if any, must not exceed 30% of the number of shares of the Company in issue from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme(s) of the Company (including exercised and outstanding options) to each eligible participants in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant.

The New Scheme expires on 29 July 2012. No option was granted by the Company pursuant to the terms of the New Scheme during the period ended 30 September 2002.

(c) Open offer

On 8 May 2002, an open offer of 6,219,150,000 new shares of $0.01 each ("offer shares") was made to the Company's qualifying shareholders at a subscription price of $0.018 per share and on the basis of one offer share for every two existing shares held on 23 April 2002, for an aggregate consideration after expenses of approximately $108,843,000. The new shares under this open offer were fully subscripted.

(d) Capital reorganization

Pursuant to a special resolution passed on 29 July 2002, a capital reorganization was undertaken on 30 July 2002 which involved:

(i) share consolidation on the basis that every twenty issued and unissued shares of $0.01 each in the capital of the Company were consolidated into one consolidated share of $0.20 each.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

15. Share capital *(continued)*

(d) Capital reorganization *(continued)*

(ii) The nominal value of each of the consolidated shares in issue was reduced from $0.20 to $0.01 by cancelling $0.19 paid up on each issued consolidated share and the subdivision of each unissued consolidated share of $0.20 each into twenty new shares of $0.01 each and as a result, an amount of $177,246,000 was credited to the contributed surplus account pursuant to the Companies Act 1981 of Bermuda and the bye-laws of the Company.

(iii) An amount of $1,701,352,000 standing to part of the credit of the share premium account of the Company was cancelled and such credit arising therefrom was applied to eliminate part of the accumulated losses of the Company.

16. Reserves

	Note	**Share premium** *$'000*	**Contributed surplus** *$'000*	**Accumulated losses** *$'000*	**Total** *$'000*
At 1 April 2002		1,985,330	419,002	(2,330,376)	73,956
Issue of shares	*15(c)*	46,651	—	—	46,651
Capital reorganization	*15(d)*	(1,701,352)	177,246	1,701,352	177,246
Profit for the period		—	—	10,904	10,904
At 30 September 2002		330,629	596,248	(618,120)	308,757

17. Commitments

(a) Commitments under operating leases

The Group leases a property under operating lease. The lease runs for 1 year. At 30 September 2002, the total future minimum lease payments under non-cancellable lease are payable as follows:

	At 30 September 2002 ***$'000***	At 31 March 2002 *$'000*
Within 1 year	**117**	299

(b) Investment commitments

As at 30 September 2002, the Group committed to make capital contributions totalling $45,000,000 (31 March 2002: $65,000,000) to certain subsidiaries in the PRC.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

18. Contingencies

Bank guarantees

As at 30 September 2002, corporate guarantees given by the Company to banks in respect of banking facilities granted to certain subsidiaries amounted to $8,106,000 (31 March 2002: $11,107,000).

19. Outstanding litigations

Significant litigations outstanding as at 30 September 2002 and up to the date of this interim report are summarised as follows:

On 21 September 1999, a former director of the Company, Mr Wong Chong Shan, commenced proceedings in the High Court against the Company claiming a sum of $5,000,000. Mr Wong Chong Shan alleged that he paid the said sum on the Company's behalf in August 1997 to a third party as deposit and that the Company failed to make repayment to him. The Directors have considered the matter and take the view that since no positive steps have been taken by Mr Wong Chong Shan to prosecute the action since 10 December 1999, it is not necessary at this stage to make a provision in the financial statements for these proceedings.

20. Material related party transactions

Particulars of material related party transactions are as follows:

	Note	**At 30 September 2002 *$'000***	At 31 March 2002 *$'000*
Unsecured and interest bearing loans from related companies	*20(a)*	38,922	97,164
Payable to two directors of a subsidiary	*20(d)*	2,000	—

	Note	**Six months ended 30 September 2002 *$'000***	Six months ended 30 September 2001 *$'000*
Interest expense	*20(a)*	1,387	—
Arrangement fee	*20(a)*	75	—
Underwriting fee	*20(b)*	492	—
Commission	*20(c)*	434	—
Consultancy fee	*20(d)*	2,000	—

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

20. Material related party transactions *(continued)*

(a) During the period, short-term loans were advanced to the Group by certain related companies (the "Lenders"). The loans due to the Lenders are unsecured, interest bearing at prime rate plus 3% per annum and have no fixed repayment terms.

Interest expense payable to the Lenders for the six months ended 30 September 2002 amounted to $1,387,000 (2001: Nil).

Credit facilities of up to $40 million (2001: Nil) were granted to the Group by one of the Lenders. Arrangement fee in respect of the credit facilities amounted to $75,000 was paid to such lender.

Two directors of the Company are also beneficial shareholders of the Lenders.

(b) During the period, underwriting fee was paid to a related company (the "Underwriter") in respect of the open offer (note 15(c)). The underwriting fee amounted to $492,000 for the six months ended 30 September 2002 (2001: Nil).

A director of the Company is also a beneficial shareholder of the Underwriter.

(c) During the period, other investments were bought and sold through a related company (the "Broker Firm"). The purchases and sales of other investments excluding any commission expenses through the Broker Firm for the six months ended 30 September 2002 amounted to $55,501,000 (2001: Nil) and $62,862,000 (2001: Nil) respectively.

Commission expense incurred in respect of the sales and purchases of other investments amounted to $434,000 for the period ended 30 September 2002 (2001: Nil).

Two directors of the Company are also beneficial shareholders of the Broker Firm.

(d) During the period, consultancy fee of $2,000,000 was payable to two directors of a subsidiary in relation to management services rendered in respect of the strategic investments and capital market activities of the Group.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

21. Post balance sheet event

(a) On 22 July 2002, REXCAPITAL Financial Services Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with a vendor ("Vendor"), of which two directors of the Company are also beneficial shareholders, for acquisition of the entire issued share capital of REXCAPITAL (Hong Kong) Limited at a consideration of $80 million to be satisfied by the issue of convertible bonds by the Company to the Vendor or its nominee. The convertible bonds issued on 13 December 2002 in respect of the above acquisition bear interest at a fixed rate of 2% per annum payable semi-annually in arrears.

(b) On 11 October 2002, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement to acquire a 96.9% equity interest of a company at a consideration of $179 million. Two directors of the Company are also beneficial shareholders of such company. On the same date, the Company entered into a subscription agreement in relation to the issue of convertible bonds by the Company. The said agreements lapsed on 25 October 2002 as certain precedent conditions were not met.

(c) A conversion notice dated 30 November 2002 was received by the Company from the holder of the 5% Bonds, which gave notice to exercise the conversion rights attached to the 5% Bonds in the aggregate amount of $8,000,000 issued by the Company. Pursuant to a resolution of the Directors passed on 2 December 2002, 50,000,000 shares were allotted and issued on 2 December 2002 to the holder of the 5% Bonds upon conversion of the bonds at the floating conversion price and credited as fully paid up. The applicable conversion price was $0.16 per share, which was based on 93% of the arithmetic average of the lowest 4 closing prices per share during the 20 consecutive trading days immediately prior to the exercise date.

22. Comparative figures

Comparative figures have been reclassified based on the adoption of new presentation on profit and loss account and new accounting standards as set out in note 1(b) in the interim financial report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

During the period under review, the paramount objective of the management has been to establish a solid operational and financial platform for the Group's future growth in its two major lines of business: Telecommunications and Technology-related Business, and Strategic Investments and Capital Market Activities.

During this period, the telecommunications and technology-related business has sustained an operating loss due to the continuing market decline. The Group is making further measures to control its expenditures with an aim to lowering its total operating costs aggressively in order to maintain the Group's competitiveness in this market.

In order to broaden the Group's earning base and leveraging on the experience and expertise of the current management, the Group has commenced to engage in strategic investments and capital market activities in this period. The result of this segment of our business has been satisfactory, contributing an operating profit of $21,316,000 for the period under review.

Meanwhile, the Group is taking active measures to reduce its operating costs and improve its efficiencies to pave its way for a sustainable business growth when the economic situation improves. With the committed effort in streamlining operations and stringently controlling cost, the Group succeeded in registering a substantial reduction in expenses during this period. The Group's total staff costs, net finance costs and other operating expenses has decreased by 63% to $12,301,000 for the review period in comparison with the last interim period (2001: $32,925,000). The decrease was mainly attributable to the following:

(i) staff costs dropped by approximately $6 million. The savings were resulted from the Group's net headcount reduction since mid 2001;

(ii) premises expenses decreased by approximately $4 million, as compared with the last corresponding period; and

(iii) reduction of net finance cost by $6 million due to repayment of loans during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review and Prospects *(continued)*

During this period, three new directors were appointed. Mr Chan How Chung, Victor ("Mr Chan") was appointed as Chairman of the Group. Miss Lee Huei Lin, Elizabeth ("Miss Lee") and Mr Chan Wai Kwong, Peter ("Mr P Chan") were appointed as Executive Directors of the Group. In his capacity as Chairman, Mr Chan oversees the overall operations and business development of the Group. Miss Lee is responsible for daily operations and corporate development of the Group. With a wealth of experience in marketing and telecommunications, Mr P Chan is responsible for the marketing and business development of the Group's telecommunications and technology-related business. With their extensive knowledge and experience, the Group will benefit from their significant contributions for future business growth.

Telecommunications and Technology-related Business

During the review period, the telecommunications and technology-related market continued to be very tough. Capital investment and spending constraints have intensified and remained in place for much longer than anyone would have experienced or predicted in this industry. During this prolonged market downturn, we have been concentrating our efforts on strengthening our technology foundations and streamlining our cost structure, so that we will be well-positioned to capitalize on the market when it rebounds.

In April 2002, the Group acquired an internet and communications company, which specialises in providing VPN service. The Group continues to operate and enhance its cross-border network-based IP-VPN service to offer a hassle-free, one-stop-shop comprehensive network solution to meet the demanding requirements of those enterprises that have offices and factories in Hong Kong and the PRC. To make our service more attractive in terms of connectivity and price performance, we have teamed up with our business partners and have successfully extended the IP-VPN connectivity to cover fixed wireless access in Dongguan, one of the fastest economic growth area in the PRC, where many Hong Kong based enterprises already established sizeable plants and factories. Such capability can easily be extended to other parts of the PRC which means we are able to respond to the market requirements in a timely manner.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review and Prospects *(continued)*

Confronted with the current global economic contraction and the anticipated keen competition in the industry, the Group is devoted to making every endeavour to cope with this situation. Our strategy is to keep a thin operation while maintaining enough resources to focus on those very few growing niche sectors and applications. Effective cost control and product diversification are our key strategic approach to the business.

Specifically, while we are taking a conservative approach in our business during this period of uncertainty, we are also positioning our Group to benefit from the uptake of the global economy. We are now in the position to offer secure and reliable internet related value-added services, eg spam-free, secure email and webhosting services to our customers. In addition, we are also prepared to provide software based all-in-one enterprise grade smart platform. All these capabilities enable us to truly provide an end-to-end telecom solution in an economical way to our customers.

With the accession of the PRC to the World Trade Organization ("WTO"), the Group believes the demand for telecommunications will increase exponentially as more and more foreign investment is expected to flow into the PRC which will create demand for traffic flow between the PRC and overseas. Strategic alliance with licensed operators in the PRC will be formed to develop activities of mutual benefits in the PRC. Our extensive fibre connectivity within the PRC and strong partnerships with Mainland's reputable licensed operators will further enhance our capabilities to provide superior broadband data services.

Strategic Investments and Capital Market Activities

In July 2002, the Group announced that it proposed to acquire the entire issued share capital of REXCAPITAL (Hong Kong) Limited ("REXCAPITAL HK"), which is principally engaged in the provision of corporate finance advisory services in Hong Kong. This is the first acquisition by the Group since the change of substantial shareholder in March 2002, and marks a significant step for the Group in its diversification into strategic investments and capital market activities.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review and Prospects *(continued)*

Despite of the unfavourable sentiment prevailing in the financial market, REXCAPITAL HK successfully maintained a steady growth in its profits for the past two years. Supported by its remarkable results and solid foundations in the industry, we believe that the acquisition will provide us with a stable and effective platform to further penetrate into the strategic investments and capital market business, bringing better and more sustainable returns to the Group in the near future.

Hong Kong is, beyond doubt, an important international financial hub in the world. After the transfer of sovereignty of Hong Kong to the PRC in 1997, Hong Kong has continued to be a key player as a financial and fund-raising center for the greater China region. Increasing number of PRC enterprises have been listed or are seeking opportunities to be listed on the Stock Exchange with a view to raising equity funding and gaining exposure to international markets since then. Moreover, the PRC's accession to the WTO has been the other reason for PRC enterprises to eagerly seek a listing status so as to become more competitive with listed international players. Other corporate finance activities, like merger and acquisition, debt financing, corporate restructuring and spinning-off, will also be mushrooming after the WTO entry. Therefore, in our view, the strategic investments and capital market business in both Hong Kong and the PRC markets will continue to be active and thus the business potential of this business will be huge.

The Group's management and entire staff will continue to dedicate their best efforts to leverage on the Group's extensive connections and strong presence in Hong Kong and the PRC. With a clear business focus, we will continue to enhance the operation and management of our existing business segments. Looking ahead, we will actively pursue development opportunities to enrich the Group's business portfolio and continue to identify new business opportunities to bring attractive returns to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review

Operating Results

During the period under review, the Group recorded a turnover of $64,437,000 (2001: $5,133,000) and a profit of $10,904,000 (2001: loss of $64,344,000). The substantial increase in turnover and profit was contributed by the strategic investments and capital market business.

The Group's staff costs and other operating expenses decreased by 62% to $8,946,000 for the review period in comparison with the last interim period (2001: $23,663,000). Net finance expenses of the Group for the six months ended 30 September 2002 was $3,355,000 representing a decrease of 64% from the corresponding period in last year. The decrease was mainly due to repayment of loans during this period.

The net asset value of the Group increased substantially from $198,339,000 as at 31 March 2002 to $318,086,000 as at 30 September 2002, representing an increase of 60%. While the indebtedness of the Group decreased by 47% from $181,639,000 as at 31 March 2002 to $96,659,000 as at 30 September 2002.

Capital Structure, Financial Resources and Liquidity Position

During the period under review, an open offer of 6,219,149,537 new shares of $0.01 each ("Offer Shares") was made to the Company's shareholders at 8 May 2002, at a subscription price of $0.018 per share and on the basis of one Offer Share for every two existing shares held on 23 April 2002, for an aggregate consideration before expenses of approximately $111,945,000.

In July 2002, the Company undertook a capital reorganization. The reorganization included the followings:

(a) share consolidation on the basis that every twenty issued and unissued shares of $0.01 each in the capital of the Company were consolidated into one consolidated share of $0.20 each;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

(b) the nominal value of each of the consolidated shares in issue was reduced from $0.20 to $0.01 by cancelling $0.19 paid up on each issued consolidated share and the subdivision of each unissued consolidated share of $0.20 each into twenty new shares of $0.01 each and as a result, the credit of an amount of approximately $177,246,000 was arisen and such amount was credited to the contributed surplus account; and

(c) an amount of approximately $1.7 billion, standing to the credit of the share premium account of the Company, be cancelled and such credit of approximately $1.7 billion arising therefrom be applied to eliminate the whole accumulated losses of the Company of approximately $1.7 billion as at 30 September 2001.

As at 30 September 2002, the Group had a total of $20,194,000 in cash, compared with $187,000 as at 31 March 2002. Net cash outflow from operating activities of $2,162,000 as compared to $8,124,000 for the period ended 30 September 2001.

The Group had outstanding unsecured other loans of $38,922,000 as at 30 September 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 Group's operations.

The gearing ratio of the Group decreased to 30% as at 30 September 2002 from 92% as at 31 March 2002 (it is derived by dividing the aggregate amount of bank borrowings, convertible bonds and other borrowings by the amount of shareholders' equity).

Foreign Exchange Exposure

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

Acquisition and Disposal of Material Subsidiaries

There was no acquisition and disposal of material subsidiaries during the period under review.

Human Resources

As at 30 September 2002, the Group had 9 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 September 2002, the following director had interests in shares and rights to subscribe for shares of the Company that are required to be recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

	Number of ordinary shares of $0.01 each ("Shares")			
Beneficial owner	**Personal interests**	**Family Interests**	**Corporate interests**	**Other interests**
Chan How Chung, Victor ("Mr Chan")	—	—	275,179,510 *(Note)*	—

Note: Of the 275,179,510 Shares beneficially owned by Mr Chan, 258,052,510 Shares were held by Mega Market Assets Limited, a company wholly-owned by Mr Chan. The remaining 17,127,000 Shares were held by two other companies. Mr Chan was taken to be interested in these 17,127,000 Shares as he was entitled to control the exercise of more than one third of the voting power at general meetings of these two companies.

SUBSTANTIAL SHAREHOLDER

As at 30 September 2002, according to the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance, the shareholder who was interested in 10% or more of the issued share capital of the Company was as follows:

	Number of Shares held	**Percentage of total issued shares**
Mega Market Assets Limited	258,052,510 *(Note)*	27.66%

Note: Mega Market Assets Limited is wholly owned by Mr Chan How Chung, Victor, a director and the Chairman of the Company.

Other than as disclosed above, no other person is recorded in the register as having an interest in 10% or more of the issued share capital of the Company.

SHARE OPTION SCHEME

Pursuant to the Old Scheme, the Company has granted options to its employees on the Company's ordinary shares. Movements of the options for the period ended 30 September 2002 are as follows:

	No of options outstanding at 1 April 2002	No of options outstanding as adjusted by the Open Offer	No of options cancelled	No of options outstanding at 30 September 2002	No of options exercised during the period
Total employees	15,600,000	16,666,664 *(Note)*	16,666,664	Nil	Nil

Note: An open offer of 6,219,149,537 shares of $0.01 each (the "Open Offer") was made to the Company's shareholders at 8 May 2002, at a subscription price of $0.018 per share and on the basis of one offer share for every two existing shares held on 23 April 2002. As a result of the Open Offer, the subscription price of the options was adjusted from $0.125 to $0.117 per share and the number of options outstanding was adjusted accordingly.

By an ordinary resolution passed on 29 July 2002, the Old Scheme was terminated and the New Scheme was adopted in order to comply with recent changes to the Listing Rules with respect to share option scheme.

Upon termination of the Old Scheme, all outstanding options were cancelled as the relevant grantees have unconditionally and irrevocably consent to waive their exercise rights previously granted by the Company.

No options were granted by the Company pursuant to the terms of the New Scheme during the period ended 30 September 2002.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2002.

CODE OF BEST PRACTICE

The Directors are of the opinion that the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 September 2002.

APPRECIATION

I would like to take this opportunity to express my appreciation to 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 dedicated efforts and significant contribution during this period.

By order of the board
Chan How Chung, Victor
Chairman

Hong Kong, 17 December 2002