



REXCAPITAL International Holdings Limited

御泰國際控股有限公司

(Incorporated in Bermuda with limited liability)



Interim Report 2003/2004

The board of directors (the “Board”) 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 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2003 (Unaudited) \$'000	2002 (Unaudited) \$'000
	<i>Note</i>		
Turnover	2	12,141	64,437
Other income, net	3	72	160
Unrealised gain/(loss) on trading securities		7,388	(250)
Cost of trading securities sold		(6,599)	(38,751)
Staff costs		(2,593)	(1,652)
Amortisation of goodwill		(1,356)	–
Depreciation		(3)	(364)
Other operating expenses		(3,206)	(7,294)
Profit from operations		5,844	16,286
Finance costs	6(a)	(1,194)	(3,357)
Non-operating income/(expenses), net	4	633	(2,025)
Profit from ordinary activities before taxation	6	5,283	10,904
Taxation	7	(372)	–
Profit from ordinary activities after taxation		4,911	10,904
Minority interests		6	–
Profit attributable to shareholders		4,917	10,904
Earnings per share			
– Basic	9(a)	0.34 cents	1.26 cents
– Diluted	9(b)	0.29 cents	1.17 cents

The notes on pages 5 to 17 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2002	124,383	1,985,330	419,002	(2,330,376)	198,339
Issue of shares	62,192	46,651	–	–	108,843
Capital reorganisation	(177,246)	(1,701,352)	177,246	1,701,352	–
Profit for the period	–	–	–	10,904	10,904
At 30 September 2002	<u>9,329</u>	<u>330,629</u>	<u>596,248</u>	<u>(618,120)</u>	<u>318,086</u>
	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2003	13,079	386,879	596,248	(623,058)	373,148
Issue of shares	1,800	15,725	–	–	17,525
Profit for the period	–	–	–	4,917	4,917
At 30 September 2003	<u>14,879</u>	<u>402,604</u>	<u>596,248</u>	<u>(618,141)</u>	<u>395,590</u>

The notes on pages 5 to 17 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

as at 30 September 2003

(Expressed in Hong Kong dollars)

	Note	At 30 September 2003 (Unaudited) \$'000	At 31 March 2003 (Audited) \$'000
Non-current assets			
Fixed assets		395,015	395,018
Goodwill		51,958	53,314
		<u>446,973</u>	<u>448,332</u>
Current assets			
Trading securities		39,507	5,320
Trade and other receivables	10	6,598	4,160
Tax recoverable		302	505
Cash at banks and in hand		35,112	10,937
		<u>81,519</u>	<u>20,922</u>
Current liabilities			
Trade and other payables	11	(5,769)	(5,213)
Bank overdraft, unsecured		–	(2,840)
Other loans		(8,762)	(18,422)
Convertible bonds		(7,000)	(631)
		<u>(21,531)</u>	<u>(27,106)</u>
Net current assets/(liabilities)		<u>59,988</u>	<u>(6,184)</u>
Total assets less current liabilities		<u>506,961</u>	<u>442,148</u>
Non-current liabilities			
Minority interests		(49,371)	–
Convertible bonds		(62,000)	(69,000)
		<u>(111,371)</u>	<u>(69,000)</u>
NET ASSETS		<u>395,590</u>	<u>373,148</u>
CAPITAL AND RESERVES			
Share capital		14,879	13,079
Reserves		380,711	360,069
		<u>395,590</u>	<u>373,148</u>

The notes on pages 5 to 17 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2003 (Unaudited) \$'000	2002 (Unaudited) \$'000
Net cash used in operating activities	(29,822)	(2,162)
Net cash provided by investing activities	50,000	244
Net cash provided by financing activities	6,837	23,249
Increase in cash and cash equivalents	27,015	21,331
Cash and cash equivalents at 1 April	8,097	(7,805)
Cash and cash equivalents at 30 September	<u>35,112</u>	<u>13,526</u>
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	35,112	20,194
Bank overdraft	—	(6,668)
	<u>35,112</u>	<u>13,526</u>

The notes on pages 5 to 17 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.

The same accounting policies adopted in the annual financial statements for the year ended 31 March 2003 have been applied to the interim financial report except as disclosed under notes 1(b) and 1(c).

(b) *Adoption of a revised SSAP*

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. 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 financial statements and the corresponding tax bases 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 SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods, and accordingly, no prior period adjustment is required.

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

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(c) Discontinuing operations

The Group has adopted SSAP 33 for the reporting of information about discontinuing operations as stipulated in the SSAP in the current financial period where an initial disclosure event has taken place. Since this SSAP relates effectively to disclosures it has no effect on the results for the current or prior accounting periods. The adoption of SSAP 33 has resulted in the identification of the Group's telecommunications and technology-related business as a discontinuing operation in the current period, details of which are set out in note 5.

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

2 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Turnover represents the aggregate of servicing fees receivable from the provision of telecommunications and technology-related services, proceeds from sales of trading securities and investment advisory fees receivable from the provision of capital market advisory services for the period.

Business segments

The Group comprises the following main business segments:

Continuing operation: –

Strategic investments and capital market activities: Participation in primary and secondary securities market and provision of capital market advisory services

Discontinuing operation: –

Telecommunications and technology-related services: Provision of telecommunications and technology-related services

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

2 Segment reporting (continued)

	Continuing		Discontinuing		Unallocated		Consolidated	
	Strategic investments and capital market activities		Telecommunications and technology-related services					
	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Six months ended 30 September (unaudited)								
Revenue from external customers	<u>12,139</u>	<u>62,862</u>	<u>2</u>	<u>1,575</u>	<u>-</u>	<u>-</u>	<u>12,141</u>	<u>64,437</u>
Segment result	7,687	21,316	(40)	(2,218)	-	-	7,647	19,098
Unallocated operating income and expenses							<u>(1,803)</u>	<u>(2,812)</u>
Profit from operations							5,844	16,286
Finance costs							<u>(1,194)</u>	<u>(3,357)</u>
Non-operating income/ (expenses), net	-	-	-	-	633	(2,025)	<u>633</u>	<u>(2,025)</u>
Profit from ordinary activities before taxation							5,283	10,904
Taxation							<u>(372)</u>	<u>-</u>
Profit from ordinary activities after taxation							4,911	10,904
Minority interests							<u>6</u>	<u>-</u>
Profit attributable to shareholders							<u>4,917</u>	<u>10,904</u>
Depreciation and amortisation for the period	<u>-</u>	<u>-</u>	<u>3</u>	<u>336</u>	<u>-</u>	<u>28</u>	<u>3</u>	<u>364</u>
Capital expenditure incurred during the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>270</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>278</u>

The Group did not have any inter-segment sales during either period.

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

(Expressed in Hong Kong dollars)

2 Segment reporting *(continued)*

Geographical segments

The Group participates in two principal economic environments: Hong Kong and other areas of the People's Republic of China (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 the assets.

	Hong Kong		Other areas of the PRC		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Six months ended 30 September (unaudited)						
Revenue from external customers	<u>5,836</u>	<u>1,575</u>	<u>6,305</u>	<u>62,862</u>	<u>12,141</u>	<u>64,437</u>
Segment result	<u>1,622</u>	<u>(2,423)</u>	<u>6,025</u>	<u>21,521</u>	<u>7,647</u>	<u>19,098</u>
Capital expenditure incurred during the period	<u>-</u>	<u>278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>278</u>

3 Other income, net

	Six months ended 30 September	
	2003 \$'000	2002 \$'000
Gain on disposal of fixed assets	-	156
Interest income	-	2
Others	<u>72</u>	<u>2</u>
	<u>72</u>	<u>160</u>

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

(Expressed in Hong Kong dollars)

4 Non-operating income/(expenses), net

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
Gain on disposal of subsidiaries	10	418
Gain on disposal of discontinuing operation <i>(Note 5)</i>	623	–
Impairment losses on goodwill	–	(2,443)
	<u>633</u>	<u>(2,025)</u>

5 Discontinuing operation

On 18 July 2003, the Group entered into an agreement with an independent third party for the disposal of a 12.5% equity interest in REXCAPITAL Infrastructure Limited, an intermediate holding company investing in the fibre-optic network, at a consideration of \$50,000,000 to be satisfied in cash. This transaction was completed on 31 July 2003. The Group has recorded a gain of \$623,000 on this transaction.

On 29 October 2003, the Group entered into a sale and purchase agreement with another independent third party pursuant to which the Group shall dispose of its entire remaining interest in REXCAPITAL Infrastructure Limited at a consideration of \$350,000,000 to be satisfied in cash (the “Disposal”). The Group will record a gain of approximately \$4,400,000 on this transaction.

Upon completion of the Disposal, the Group will cease to provide telecommunications and technology-related services, but will continue to engage in the strategic investments and capital market activities. Further details of the Disposal are set out in the Company’s announcement dated 31 October 2003.

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

(Expressed in Hong Kong dollars)

5 Discontinuing operation *(continued)*

The telecommunications and technology-related segment is reported in the financial statements for the six months ended 30 September 2003 as a discontinuing operation. The sales, results, cash flows and net assets of that segment were as follows:

	Six months ended 30 September 2003 \$'000
Turnover	2
Operating expenses	(42)
Loss from operations	(40)
Finance costs	—
Loss from ordinary activities before taxation	(40)
Taxation	—
Loss from ordinary activities after taxation	(40)

	Six months ended 30 September 2003 \$'000
Net cash used in operating activities	(75)
Total cash outflows	(75)

	At 30 September 2003 \$'000
Total assets	395,022
Total liabilities	(6,618)
Net assets	388,404

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

6 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
(a) Finance costs:		
Interest on bank loans and overdrafts and other loans repayable within five years	1,194	3,281
Finance charges on obligations under finance leases	–	1
Other charges	–	75
	<u>1,194</u>	<u>3,357</u>
(b) Other items:		
Contributions to defined contribution plan	74	9
Bad debts provision	233	348
Operating lease charges in respect of properties	496	335
Depreciation		
– owned fixed assets	3	356
– assets held under finance lease	–	8
	<u>–</u>	<u>8</u>

7 Taxation

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
Current tax		
Hong Kong profits tax	<u>372</u>	<u>–</u>

Hong Kong profits tax is provided at the rate of 17.5% on the estimated assessable profit for the period. No provision for overseas taxation has been made as there is no assessable profit for overseas tax purpose for the six months ended 30 September 2003.

No provision for Hong Kong profits tax and overseas taxation was made in the prior period as the Group either sustained a loss or did not have any assessable profits for Hong Kong profits tax purposes and overseas tax purposes for the six months ended 30 September 2002.

As at 30 September 2003, the Group had potential net deferred tax asset principally resulting from estimated tax losses. The potential net deferred tax asset has not been recognised in the condensed financial statements as it is uncertain that these tax losses could be utilised in the foreseeable future.

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

(Expressed in Hong Kong dollars)

8 Dividend

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2003 (2002: Nil).

9 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of \$4,917,000 (2002: \$10,904,000) and the weighted average number of ordinary shares of 1,447,544,000 shares (2002: 864,054,000 shares) in issue during the six months ended 30 September 2003.

(b) *Diluted earnings per share*

Diluted earnings per share is calculated based on the Group's adjusted profit attributable to shareholders of \$5,714,000 (2002: \$12,132,000) and the weighted average number of ordinary shares of 2,004,445,000 shares (2002: 1,034,249,000 shares) after adjusting for the effects of all potential dilutive ordinary shares for the six months ended 30 September 2003.

(c) *Reconciliation for diluted earnings per share*

	Six months ended 30 September	
	2003	2002
	\$'000	\$'000
Profit attributable to shareholders used in calculating basic earnings per share	4,917	10,904
Deemed interest expense saved as a result of the conversion of potential dilutive ordinary shares	<u>797</u>	<u>1,228</u>
Profit attributable to shareholders used in calculating diluted earnings per share	<u><u>5,714</u></u>	<u><u>12,132</u></u>

	Six months ended 30 September	
	2003	2002
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	1,447,544	864,054
Deemed issue of ordinary shares for no consideration	<u>556,901</u>	<u>170,195</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>2,004,445</u></u>	<u><u>1,034,249</u></u>

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

(Expressed in Hong Kong dollars)

10 Trade and other receivables

An aging analysis of trade receivables (net of specific allowances for bad and doubtful debts) included in trade and other receivables is as follows:

	<i>Note</i>	At 30 September 2003 \$'000	At 31 March 2003 \$'000
Within 3 months		4,375	595
More than 3 months but less than 1 year		80	233
More than 1 year		–	3,307
Total trade receivables	<i>(a)</i>	4,455	4,135
Deposits, prepayments and other receivables	<i>(b) and (c)</i>	2,143	25
		<u>6,598</u>	<u>4,160</u>

Notes:

- (a) The credit terms granted to customers by the Group are generally not more than 30 days.
- (b) All of the deposits, prepayments and other receivables are expected to be recovered within 1 year.
- (c) Included in other receivables is a receivable from a broker, in which two executive Directors are common directors and beneficial shareholders, of \$1,983,000 (31 March 2003: Nil). The trading terms are similar to the terms granted by other unrelated brokers and the settlement term is 2 days after the trade date.

11 Trade and other payables

	At 30 September 2003 \$'000	At 31 March 2003 \$'000
Trade payables	–	27
Other payables and accrued charges	5,769	5,186
	<u>5,769</u>	<u>5,213</u>

All the trade and other payables are expected to be settled within 1 year.

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

(Expressed in Hong Kong dollars)

12 Commitments

(a) *Commitments under operating leases*

At 30 September 2003, the total future minimum lease payments under a non-cancellable lease relating to a property are payable as follows:

	At 30 September 2003 \$'000	At 31 March 2003 \$'000
Within 1 year	<u>968</u>	<u>486</u>

The Group leases a property under an operating lease. The lease runs for an initial period of 1 year, with an option to renew the lease when all terms are renegotiated. Lease payments are usually adjusted annually to reflect the market rentals. The lease does not include contingent rentals.

(b) *Investment commitments*

As at 30 September 2003, the Group was committed to make capital contributions totalling \$45,000,000 (31 March 2003: \$45,000,000) to certain subsidiaries in the PRC. The Group's interests in these subsidiaries which formed part of the discontinuing operation (Note 5) were proposed to be disposed of subsequent to 30 September 2003 (Note 16(a)).

13 Outstanding litigation

Significant litigation outstanding as at 30 September 2003 and up to the date of this interim financial report is 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. In 1999, the Company filed a defence against these proceedings and also commenced third party proceedings against the third party who had allegedly received the said sum. After obtaining legal opinions, the Directors considered that it is not necessary at this stage to make a provision in the financial statements for these proceedings.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

14 Related party transactions

Particulars of material related party transactions are as follows:

	Note	Six months ended 30 September	
		2003 \$'000	2002 \$'000
Advisory fee income	(a)	<u>900</u>	<u>—</u>
Interest expense			
– other loans, unsecured	(b)	92	1,387
– other loan, secured	(c)	161	—
– convertible bonds	(d)	<u>622</u>	<u>—</u>
		<u>875</u>	<u>1,387</u>
Arrangement fee	(b)	—	75
Commission	(e)	43	434
Operating lease charges in respect of properties	(f)	489	—
Underwriting fee	(g)	<u>—</u>	<u>492</u>

Particulars of material balances with related parties are as follows:

	Note	At 30 September 2003 \$'000	At 31 March 2003 \$'000
Unsecured and interest bearing loans from related companies	(b)	<u>—</u>	<u>17,413</u>
Secured and interest bearing loan from a related company	(c)	<u>567</u>	<u>1,009</u>
Convertible bonds	(d)	<u>62,000</u>	<u>62,000</u>
Convertible bonds interest payable	(d)	<u>1,011</u>	<u>389</u>
Operating lease charges in respect of properties payable	(f)	<u>—</u>	<u>270</u>

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

(Expressed in Hong Kong dollars)

14 Related party transactions *(continued)*

Notes:

(a) During the period, advisory fee income was received from a related company with reference to the market rates.

(b) 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 paid to the Lenders for the six months ended 30 September 2003 amounted to \$92,000 (2002: \$1,387,000).

Arrangement fee in respect of the credit facilities amounting to \$75,000 was paid to the Lenders during the six months ended 30 September 2002 (2003: Nil).

(c) During the period, a short-term loan was advanced to the Group by a related company. The loan due to this related company is interest bearing at prime rate plus 3% per annum and secured by certain equity securities listed in Hong Kong with market value of \$21,210,000.

Interest expense payable to this related company for the six months ended 30 September 2003 amounted to \$161,000 (2002: Nil).

Credit facilities of \$5 million were granted to the Group by this related company.

(d) In 2002, convertible bonds bearing interest at a fixed rate of 2% per annum payable bi-annually were issued to a related company.

Interest expense payable to this related company for the six months ended 30 September 2003 amounted to \$622,000 (2002: Nil).

Interest expense payable to the related company as at 30 September 2003 was \$1,011,000 (31 March 2003: \$389,000), which has been included in "Other payables and accrued charges" of note 11.

(e) During the period, trading securities were bought and sold through two related companies (the "Broker Firms"). The purchases and sales of trading securities through the Broker Firms for the six months ended 30 September 2003, excluding any commission expense, amounted to \$4,066,000 (2002: \$55,501,000) and \$6,193,000 (2002: \$62,862,000) respectively.

Commission expense incurred in respect of the sales and purchases of trading securities amounted to \$43,000 for the six months ended 30 September 2003 (2002: \$434,000).

(f) During the six months ended 30 September 2003, operating lease charges of \$489,000 (2002: Nil) were paid to a related company for the use of office premises.

(g) During the six months ended 30 September 2002, underwriting fee was paid to a related company in respect of an open offer (2003: Nil).

An executive Director is a director and beneficial shareholder of the related companies referred to in notes (a) to (g).

Another executive Director is a director of the related companies in notes (a) to (f). This Director is also a beneficial shareholder of the related companies in notes (a) and (d) and a beneficial shareholder of two of the related companies in note (b) and one of the related companies in note (e).

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

(Expressed in Hong Kong dollars)

15 Pledge of assets

As at 30 September 2003, trading securities with market value of approximately \$40,000,000 have been pledged to secure other loans granted to the Group (31 March 2003: \$5,320,000).

16 Post balance sheet events

- (a) On 29 October 2003, REXCAPITAL Technology Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party pursuant to which the Group disposed of its entire interest in REXCAPITAL Infrastructure Limited at a consideration of \$350,000,000 to be satisfied in cash. The Group will record a gain of approximately \$4,400,000 on this transaction.
- (b) A conversion notice dated 30 October 2003 was received by the Company from the holder of the convertible bonds which bear interest at a fixed rate of 5% per annum payable bi-annually (the "5% Bonds"), which gave notice to exercise the conversion rights attached to the 5% Bonds in the aggregate amount of \$4,000,000. Pursuant to a resolution of the Directors passed on 31 October 2003, 30,303,030 shares were allotted and issued on 31 October 2003 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 \$0.132 per share, which is 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.
- (c) A conversion notice dated 8 November 2003 was received by the Company from the holder of the convertible bonds which bear interest at a fixed rate of 2% per annum payable bi-annually (the "2% Bonds"), which gave notice to exercise the conversion rights attached to the 2% Bonds in the aggregate amount of \$13,000,000. Pursuant to a resolution of the Directors passed on 10 November 2003, 93,525,179 shares were allotted and issued on 10 November 2003 to the holder of the 2% Bonds upon conversion of the bonds at the floating conversion price and credited as fully paid up. The applicable conversion price was \$0.139 per share, which is based on 92% of the arithmetic average of the lowest 4 closing prices per share during the 20 consecutive trading days immediately prior to the exercise date.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

In the previous year, the Group mainly engaged in two major lines of business: Strategic Investments and Capital Market Activities, and Telecommunications and Technology-related Business.

In early 2003, the Group planned, if the market conditions of the telecommunications and technology-related business improved, to form strategic alliance with investors who were also optimistic about the future of that business to jointly exploit its optical fibre resources. Apart from that plan, the Group has also been actively exploring all possible alternatives to best utilise its optical fibre resources. During the period under review, the telecommunications and technology-related market continued to be very tough and the global and local economic atmosphere was still on the low side and the continued deflation in the economy had further aggravated investment and spending in telecommunications infrastructure and information technology in every industry. After careful consideration, the Directors have come to the conclusion that under the current environment, it would be difficult for the Group, as a foreign investor, to participate in the PRC telecommunications business. As a result, on 29 October 2003, the Group has entered into a sale and purchase agreement pursuant to which the Group disposed of its entire remaining interest in REXCAPITAL Infrastructure Limited, an intermediate holding company investing in the fibre-optic network, at a consideration of HK\$350,000,000 to be satisfied in cash.

Upon completion of the Disposal, the Group will cease to provide telecommunications and technology-related services, but will continue to engage in the strategic investments and capital market activities. In order to further enhance the shareholders' value, the Group will also commence to engage in the financing business in early 2004.

Strategic Investments and Capital Market Activities

The first half of 2003 has undoubtedly been a difficult period for the Hong Kong economy, with the negative impacts from the US-Iraq war, a worsening structural fiscal deficit and the outbreak of the Severe Acute Respiratory Syndrome. As a result, many corporations have slowed down their corporate finance activities and the Group's progress of expanding the existing revenue base has been slowed. During the period under review, our corporate finance team completed one GEM Board IPO and several advisory assignments. As at 30 September 2003, we were the on-going sponsor of three GEM Board listed companies.

Given the high liquidity and well-established infrastructure of the financial sector, Hong Kong is still an important international financial hub in the world. With the PRC's accession to the World Trade Organisation, the Directors are optimistic about the growth potential of corporate finance activities, like merger and acquisition, debt and equity financing, corporate restructuring and initial public offering. The Directors also believe that Hong Kong will continue to be a major fund raising platform for many PRC companies. Therefore, the Directors are of the view that, given the Group's experience and network in the strategic investments and capital market activities, the Group is in a beneficial position to take advantage of such activities in both Hong Kong and the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review and Prospects *(continued)*

People is crucial for our success in this business. The Group is blessed with an excellent group of professionals. Our staff morale continues to be high and the staff turnover remains to be low. The challenge for our management team is to continue our excellent track record of recruiting, managing and motivating such a talented group of individuals with diverse cultural and professional backgrounds, and to create a dynamic and great workplace. In the Directors' view, our Group has the right mix of talents and calibre in our team and as a team, they will take our strategic investments and capital market business to new heights.

Apart from increasing income, we will also continue to implement a stringent review of costs to sharpen our competitive advantage in order to cope with the ever-changing market conditions. Looking ahead, we will actively but cautiously pursue development opportunities to enrich the Group's business portfolio and continue to identify new business opportunities to bring attractive returns to our shareholders.

Financial Review

Results

For the six months ended 30 September 2003, the Group recorded a turnover of HK\$12,141,000 (2002: HK\$64,437,000). Profit attributable to shareholders was HK\$4,917,000 (2002: HK\$10,904,000). The basic earnings per share was 0.34 cents (2002: 1.26 cents) and the diluted earnings per share was 0.29 cents (2002: 1.17 cents).

The Group's staff costs and other operating expenses decreased by 35% to HK\$5,799,000 for the review period in comparison with last year (2002: HK\$8,946,000). Finance costs of the Group for the six months ended 30 September 2003 was HK\$1,194,000 representing a decrease of 64% from the corresponding period in last year. The decrease was mainly due to repayment of loans.

Liquidity, Financial Resources and Funding

At 30 September 2003, the Group had net current assets of HK\$59,988,000 (31 March 2003: net current liabilities of HK\$6,184,000).

At 30 September 2003, the Group had a total of HK\$35,112,000 in cash and cash equivalents, compared with HK\$10,937,000 as at 31 March 2003. Most of the cash reserves were placed in Hong Kong dollar short-term deposits with major banks in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

Net cash outflow from operating activities for the six months ended 30 September 2003 was HK\$29,822,000 as compared to a net cash outflow of HK\$2,162,000 for the six months ended 30 September 2002. The increase was mainly explained by the increase in trading securities purchased during this period. Net cash inflow from investing activities for the six months ended 30 September 2003 was HK\$50,000,000 as compared to a net cash inflow of HK\$244,000 for the six months ended 30 September 2002. The cash inflow from investing activities during this period represented the proceed received from disposal of a 12.5% interest in a subsidiary.

As at 30 September 2003, the Group had outstanding secured loans of HK\$8,762,000. The loans were denominated in Hong Kong dollars 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 20% as at 30 September 2003 from 24% as at 31 March 2003 (it is derived by dividing the aggregate amount of bank borrowings, convertible bonds and other borrowings by the amount of shareholders' equity). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 379% (31 March 2003: 77%), reflecting adequacy of financial resources.

The indebtedness of the Group decreased by 14% from HK\$90,893,000 as at 31 March 2003 to HK\$77,762,000 as at 30 September 2003. Of the total debts outstanding, 20% (31 March 2003: 24%) is due within one year and 80% (31 March 2003: 76%) is due in the second to fifth years inclusive. During the period, the Group continued to maintain most of its borrowings on an unsecured basis.

Taking into account the financial resources available to the Group including internally generated funds and available facilities, the Group has sufficient working capital to meet its present requirements.

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 when compared with the other currencies, thus the Group does not commit in any exchange rate hedges.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

Share Capital Structure

During the period under review, a placing of 180,000,000 new shares of HK\$0.01 each at a price of HK\$0.1 per share was made by the Company. The net placing proceed of HK\$17,525,000 was used as the general working capital of the Company.

Material Acquisition and Disposal of Subsidiaries

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

Capital Commitment

As at 30 September 2003, the Group was committed to make capital contributions totalling HK\$45,000,000 (31 March 2003: HK\$45,000,000) to certain subsidiaries in the PRC. The Group's interests in these subsidiaries have subsequently been disposed of after 30 September 2003.

Charges on Group's Assets

As at 30 September 2003, the Group's trading securities with market value of approximately HK\$40,000,000 have been pledged to secure other loans granted to its subsidiary (31 March 2003: HK\$5,320,000).

Contingent Liabilities

As at 30 September 2003, the Group had no material contingent liabilities (31 March 2003: Nil).

Human Resources

As at 30 September 2003, the Group had 13 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 2003, the interests or short positions of the Directors and chief executive 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:

(i) *Long position in the ordinary shares of HK\$0.01 each ("Shares") in the Company*

Name of Director	Number of Shares	Type of interest	Percentage of issued share capital
Chan How Chung, Victor ("Mr Chan")	387,679,510 (Note)	Interests in controlled corporations	26.06%

Note: Of the 387,679,510 Shares beneficially owned by Mr Chan, 258,052,510 and 360,000 Shares were held by Mega Market Assets Limited and Sino Success Development Corp. respectively, both of which were wholly-owned by Mr Chan. The remaining 112,500,000 and 16,767,000 Shares were held by RPI Holdings Limited and REXCAPITAL International Limited respectively, both of which were owned as to 75% by Mr Chan. By virtue of the SFO, Mr Chan was taken to be interested in these 387,679,510 Shares.

(ii) *Long position in the 2% Bonds*

Name of Director	Amount of the outstanding 2% Bonds held	Nature of interest
Mr Chan	HK\$62,000,000 (Note)	Interests in controlled corporation

Note: These 2% Bonds were held by RPI Holdings Limited. Mr Chan was taken to be interested in the 2% Bonds by virtue of his beneficial interest in 75% of the entire issued share capital of RPI Holdings Limited.

Save as disclosed above, as at 30 September 2003, none of the Directors or chief executive of the Company, 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.

INTERESTS OF SHAREHOLDERS

As at 30 September 2003, the interests or short positions of the following parties, other than a Director or chief executive of the Company, in the Shares 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 shareholder	Number of Shares	Type of interest	Percentage of issued share capital
Mega Market Assets Limited	258,052,510 <i>(Note a)</i>	Beneficial owner	17.34%
RPI Holdings Limited	112,500,000 <i>(Note b)</i>	Beneficial owner	7.56%

Notes:

- (a)* Mega Market Assets Limited was wholly-owned by Mr Chan. The interest disclosed herein is included in the interest of Mr Chan as disclosed in the section headed "Directors' and chief executive's interests in securities" above.
- (b)* RPI Holdings Limited was owned as to 75% by Mr Chan. The interest disclosed herein is included in the interest of Mr Chan as disclosed in the section headed "Directors' and chief executive's 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 September 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

No options have been granted under the share option scheme of the Company since its adoption on 29 July 2002 or during the six months ended 30 September 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 September 2003.

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, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, at any time during the six months ended 30 September 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed and discussed 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 financial report for the six months ended 30 September 2003. 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.

APPRECIATION

I would like to take this opportunity to express my sincere appreciation to our staff and my fellow directors for their dedication and contribution over the period and to thank all our shareholders, investors and business partners for their continued support and confidence in the Group.

By order of the Board

Chan How Chung, Victor
Chairman

Hong Kong, 10 December 2003