

BUSINESS REVIEW AND PROSPECTS

During the year 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: Strategic Investments and Capital Market Activities, and Telecommunications and Technology-related Business.

In order to broaden the Group's earnings 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 year. The result of this segment of our business has been satisfactory, contributing an operating profit of HK\$13,171,000 for the year 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. The Group has made major cost cuttings across the board, making significant cost savings to enable the Group to remain competitive in this tough economic environment. With the committed effort in streamlining operations and stringently controlling cost, the Group succeeded in registering a substantial reduction in expenses during this year. The Group's total staff costs, finance costs and other operating expenses decreased by 59% to HK\$20,800,000 for the year under review in comparison with last year (2002: HK\$51,067,000). The decrease was mainly attributable to the following:

- (i) staff costs dropped by approximately HK\$5 million. The savings were resulted from the Group's net headcount reduction since mid 2001;
- (ii) premises expenses decreased by approximately HK\$4 million;
- (iii) decrease in other administration expenses by HK\$8 million; and
- (iv) reduction of finance costs by HK\$13 million due to repayment of loans during the year under review.

During this year, three new directors were appointed. Mr Chan How Chung, Victor ("Mr Chan") was appointed Chairman of the Group. Miss Lee Huei Lin, Elizabeth ("Miss Lee") and Mr Chan Wai Kwong, Peter ("Mr Peter Chan") were appointed 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 Peter 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.

Strategic Investments and Capital Market Activities

In December 2002, the Group completed the acquisition of 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 the business of strategic investments and capital market activities.

BUSINESS REVIEW AND PROSPECTS *(continued)*

Strategic Investments and Capital Market Activities *(continued)*

Despite of the unfavorable sentiment prevailing in the financial market, REXCAPITAL HK successfully maintained a steady growth in its profit 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 China 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 China enterprises have been listed or are seeking opportunities to be listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with a view to raising equity funding and gaining exposure to international markets since then. Moreover, China’s accession to the World Trade Organisation (the “WTO”) has been the other reason for China 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 activities business in both Hong Kong and the China markets will continue to be active and thus the business potential of this business will be huge.

During the year under review, the performance of this business was affected by the outbreak of the SARS diseases. The first quarter of 2003 has undoubtedly been a difficult period for the global and local economies, with the negative impacts from the US-Iraq war and the outbreak of the SARS diseases. 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. Despite the current difficult and challenging operating environment and the increase in competition, the Group will continue to remain resilient and to grow. We are building a sound foundation. We intend to capitalise on our strong corporate branding, financial strength and professionalism to deliver the highest standard of customer service to maintain our leadership position.

People are crucial for our success in this business. The challenge for us is to continue to attract and retain talent, and to create a dynamic and great workplace. In our 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.

Telecommunications and Technology-related Business

In this year, the telecommunications and technology-related market continued to be very tough. The global and local economic atmosphere is still on the low side and the continued deflation in the economy has further aggravated investment and spending in telecommunications infrastructure and information technology in every industry. 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.

BUSINESS REVIEW AND PROSPECTS *(continued)*

Telecommunications and Technology-related Business *(continued)*

The rapid growth of the Chinese economy and the increasing of income per capita of Chinese nationals offer huge market potential for the Group's business development. Looking into the future, the successful entry of China into the WTO and the 2008 Olympics in Beijing, both presented great business opportunities to our Group. We are fully confident of the economic prospects of Mainland China and the demand for telecommunication services in the coming years. The demand for telecommunications will increase exponentially as more and more foreign investment is expected to flow into China which will create demand for traffic flow between China and overseas. Our objective is to form strategic alliance with licensed operators in China to develop this business in China. Our extensive fibre connectivity within China and strong partnerships with Mainland's reputable licensed operators will further enhance our capabilities to provide superior broadband data services.

We strongly believe in the inherent potential of the telecommunications industry in China. It will take a lot of hard work and time to turn that potential into a reality. There is no doubt that 2004 is going to be another challenging year but we are confident that we have the right team and the right approach to turn this business around. In this regard, we are actively exploring all possible alternatives to best utilise our optical fibre resources.

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 China. With a clear business focus, we will continue to enhance the operation and management of our existing business segments. The Group has the financial resources to take advantage of new opportunities when they arise. We are conscious that really good opportunities are few, and thus we are disciplined to be patient to identify opportunities that will benefit our shareholders in the long run. 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 shareholders.

FINANCIAL REVIEW

Results

For the year ended 31 March 2003, the Group recorded a turnover of HK\$91,636,000 (2002: HK\$5,543,000). Profit attributable to shareholders was HK\$5,966,000 (2002: loss of HK\$364,875,000). The basic earnings per share was 0.60 cents (2002: loss per share of 64.4 cents) and the diluted earnings per share was 0.58 cents (2002: not applicable). The substantial increase in turnover was contributed by the strategic investments and capital market activities.

The Group's staff costs and other operating expenses decreased by 54% to HK\$15,004,000 for the review period in comparison with last year (2002: HK\$32,454,000). Finance costs of the Group for the year ended 31 March 2003 was HK\$5,796,000 representing a decrease of 69% from the corresponding period in last year. The decrease was mainly due to repayment of loans during this period.

The indebtedness of the Group decreased by 50% from HK\$181,639,000 as at 31 March 2002 to HK\$90,893,000 as at 31 March 2003.

FINANCIAL REVIEW (continued)

Capital Structure, Financial Resources and Liquidity Position

During the period under review, an open offer of 6,219,150,000 new shares of HK\$0.01 each was made to the Company's qualifying shareholders on 8 May 2002, at a subscription price of HK\$0.018 per ordinary share and on the basis of one offer share for every two existing ordinary shares held on 23 April 2002. The proposed application of the net proceeds after expenses from the open offer in the amount of approximately HK\$108,843,000 as set out in the Company's prospectus dated 23 April 2002 and the actual application thereof are as follows:

	Proposed application as set out in the prospectus HK\$' million	Actual application (Note) HK\$' million
Loan settlement due to holders of the convertible bonds, creditors and bankers	60	78
Working capital of the Group	48	30

Note: In October 2002, an amount of HK\$18,000,000 out of the amount of HK\$48,000,000 originally planned to be applied for the working capital of the Group was utilised to repay working capital loans due to a creditor (being a financial institution) of the Group, which are revolving in nature and can be drawn down again to finance the Group's working capital requirements if required, in order to reduce interests on loans payable by the Group. This move successfully reduced the interest burden borne by the Group.

In July 2002, the Company undertook a capital reorganisation. Details of the reorganisation have been stated in note 24(d) on the financial statements.

At 31 March 2003, the Group had a total of HK\$10,937,000 in cash and cash equivalents, compared with HK\$187,000 as at 31 March 2002. Net cash inflow from operating activities for the year ended 31 March 2003 was HK\$18,452,000 as compared to a net cash outflow of HK\$15,899,000 for the year ended 31 March 2002.

As at 31 March 2003, the Group had outstanding secured and unsecured loans of HK\$1,009,000 and HK\$17,413,000 respectively. 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 24% as at 31 March 2003 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). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 77% (2002: 1%), reflecting adequacy of financial resources.

FINANCIAL REVIEW *(continued)*

Funding Strategy and Foreign Exchange Exposure

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

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

Acquisition and Disposal of Material Subsidiaries

During the year under review, the Group disposed of a number of loss-making or dormant subsidiaries which gave rise to a gain on disposal of subsidiaries of HK\$275,000.

In December 2002, the Group acquired the entire issued share capital in REXCAPITAL HK, which is engaged in the provision of corporate finance advisory services in Hong Kong. Further details of the acquisition have been set out in the Company's circular dated 28 August 2002.

Charges on Group's Assets

As at 31 March 2003, the Group's trading securities of HK\$5,320,000 has been pledged to secure credit facilities granted to its subsidiary.

Contingent Liabilities

As at 31 March 2003, the Group had no material contingent liabilities (2002: HK\$Nil).

Human Resources

As at 31 March 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.