



**LEADING SPIRIT HIGH-TECH
(HOLDINGS) COMPANY LIMITED**

(Incorporated in Bermuda with limited liability)

**INTERIM REPORT
2000-2001**

INTERIM RESULTS

The board of directors (the “Board”) of Leading Spirit High-Tech (Holdings) Company Limited (the “Company”) announces the unaudited consolidated interim results (“Interim Accounts”) of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31st December, 2000 (the “Period”) together with the comparative figures for the corresponding period in 1999 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited six months ended 31st December,	
	Notes	2000 HK\$'000	1999 HK\$'000
Turnover	2	336,902	1,110,494
Cost of sales		<u>(326,566)</u>	<u>(1,042,304)</u>
Gross profit		10,336	68,190
Other revenue		7,143	1,366
Other net income/(loss)		8,969	(54,797)
Distribution and selling expenses		(114)	(20,240)
General and administrative expenses		<u>(34,423)</u>	<u>(32,612)</u>
Loss from operations		(8,089)	(38,093)
Finance costs		(34,978)	(40,672)
Non-operating expenses, net	4	<u>(63,956)</u>	<u>(85,658)</u>
Loss before taxation		(107,023)	(164,423)
Share of loss of an associate		(16,128)	—
Taxation	5	<u>(3,617)</u>	<u>(4,047)</u>
Loss after taxation		(126,768)	(168,470)
Minority interests		<u>35,919</u>	<u>13,939</u>
Loss attributable to shareholders		<u>(90,849)</u>	<u>(154,531)</u>
Loss per share	6		
— Basic		<u>(0.58) cents</u>	<u>(1.40) cents</u>
— Fully diluted		<u>N/A</u>	<u>N/A</u>
Loss for the period is analysed as follows:			
By the Group		(75,946)	(154,531)
By an associate		<u>(14,903)</u>	<u>—</u>
		<u>(90,849)</u>	<u>(154,531)</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Unaudited six months ended 31st December,	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net loss not recognised in the consolidated income statement		
— Exchange differences arising from translation of the PRC operations	(424)	(26,148)
Loss attributable to shareholders	(90,849)	(154,531)
Realisation of revaluation reserve upon disposal of land and buildings	—	(6,736)
Share of reserve movements of a listed subsidiary	—	(33,787)
Share of reserve movements of a listed associate	(6,459)	—
Realisation of reserves upon partial disposal of a listed subsidiary	—	(46,453)
Realisation of reserves upon disposal of a listed subsidiary	13,894	—
Realisation of reserves upon deemed disposal of a listed subsidiary	—	(9,969)
Realisation of reserves upon deemed disposal of a listed associate	(18,746)	—
Total recognised losses	(102,584)	(277,624)
Capital reserves arising from acquisition of additional interest in a listed subsidiary	—	104,964
	(102,584)	(172,660)

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		31st December,	30th June,
		2000	2000
	<i>Notes</i>	HK\$'000	HK\$'000
Property, plant and equipment	7	45,905	729,510
Investments in associates	8	280,710	280,710
Interests in an associate		854,279	—
Other investments		16,371	4,142
Current assets			
Inventories		793	58,449
Trade receivables	9	252,498	2,199,870
Bills receivables		—	3,046
Prepayments, deposits and other receivables		431,180	418,589
Tax recoverable		72	277
Cash and bank deposits		41,480	117,688
		726,023	2,797,919
Current liabilities			
Short-term interest-bearing borrowings		785,896	1,128,757
Current portion of obligations under finance leases and hire purchase contracts		—	3,908
Bills payable		—	111,227
Trade payables	10	38,975	341,493
Accruals and other payables		76,425	289,225
Due to a director		22,391	22,391
Due to minority shareholders of subsidiaries		3,040	12,525
Taxation payable		44,716	179,627
		971,443	2,089,153
Net current (liabilities)/assets		(245,420)	708,766
Total assets less current liabilities		951,845	1,723,128
Non-current liabilities			
Non-current portion of interest-bearing borrowing		15,272	15,556
Non-current portion of obligations under finance leases and hire purchase contracts		—	13
Deferred taxation		28	134
Minority interests		22,540	1,010,920
		37,840	1,026,623
Net assets		914,005	696,505
Capital and reserves			
Issued capital	11	1,591,738	1,381,738
Reserves	12	(677,733)	(685,233)
Shareholders' equity		914,005	696,505

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited six months ended 31st December, 2000 HK\$'000
Net cash outflow from operating activities	(319,651)
Net cash outflow from returns on investments and servicing of finance	(31,806)
Net tax paid	(19,555)
Net cash inflow from investing activities	179,769
Net cash inflow from financing activities	<u>410,028</u>
Net increase in cash and cash equivalents	218,785
Cash and cash equivalents at beginning of period	(960,969)
Effect of foreign exchange rate changes	<u>(5)</u>
Cash and cash equivalents at end of period	<u><u>(742,189)</u></u>
Analysis of the balances of cash and cash equivalents	
Cash and bank deposits	41,480
Bank overdrafts	(11,795)
Bank and other borrowings with maturity within three months	<u>(771,747)</u>
	(742,062)
Less: pledged bank balances	<u>(127)</u>
	<u><u>(742,189)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The Interim Accounts are unaudited and have been prepared in accordance with the requirements of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited including compliance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants except that comparative figures for the consolidated cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The same set of accounting policies adopted in the 2000 annual accounts has been applied to the Interim Accounts with the inclusion of the following revised policy for the interests in associates during the Period.

The Group's share of the post-acquisition results and reserve of associates is included in the condensed consolidated income statement account and consolidated reserves, respectively. The Group's interests in associates are stated in the condensed consolidated balance sheet at the Group's share of the net assets under the equity method of accounting less any provisions for diminutions in values deemed necessary by the directors.

The notes on the Interim Accounts include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

Certain comparative figures have been reclassified to conform with current presentation as required under SSAP 1 (revised) "Presentation of financial statements".

2. Principal Activities and Geographical Analysis of Operations

An analysis of the Group's turnover and operating loss before taxation by principal activities and geographical locations for the Period is as follows:

	Unaudited turnover		Unaudited operating loss before taxation	
	six months ended		six months ended	
	31st December,		31st December,	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Manufacture of electrical and electronic products	14,407	804,305	(9,680)	(9,010)
Trading of parts and components of electrical and electronic products	24,853	305,696	(1,834)	8,248
Manufacture of computers	237	—	(8,333)	—
Trading of computer parts and components	296,766	—	12,508	—
Others	639	493	(99,684)	(163,661)
	<u>336,902</u>	<u>1,110,494</u>	<u>(107,023)</u>	<u>(164,423)</u>
By geographical locations:				
The Hong Kong Special Administrative Region ("Hong Kong")	697	615	(106,942)	(162,502)
People's Republic of China, other than Hong Kong, Taiwan and Macau (the "PRC")	336,205	1,109,879	(81)	(1,921)
	<u>336,902</u>	<u>1,110,494</u>	<u>(107,023)</u>	<u>(164,423)</u>

3. Depreciation

During the Period, depreciation of approximately HK\$1,489,000 (1999: HK\$21,540,000) was charged in respect of the Group's property, plant and equipment.

4. Non-operating Expenses, Net

	Unaudited six months ended 31st December,	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on disposal of property, plant and equipment	—	1,902
Loss on partial disposal of a listed subsidiary	—	70,569
Loss on deemed disposal of a listed subsidiary	—	13,187
Loss on deemed disposal of a listed associate	2,976	—
Loss on disposal of a listed subsidiary (<i>Note</i>)	41,097	—
Provision for diminution in value of other investments	19,883	—
	<u>63,956</u>	<u>85,658</u>

Note: On 22nd August, 2000, SinoOnLine Network Company Limited, a non wholly-owned subsidiary of the Company, disposed of 705,000,000 shares of China DigiContent Company Limited ("CDC") and the Group's holding in the share capital of CDC decreased from 52.37% to 48.18%. As a result, CDC ceased to be a subsidiary of the Company.

5. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group and the associated companies operate, based on existing legislation, interpretations and practices in respect thereof.

	Unaudited six months ended 31st December,	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong		
Group		
Charge for the Period	9	620
Overprovision in previous period	—	(5)
Elsewhere		
Group		
Charge for the Period	4,126	3,432
Overprovision in previous period	(619)	—
Associate		
Charge for the Period	101	—
	<u>3,617</u>	<u>4,047</u>

6. Loss Per Share

(a) *Basic loss per share*

The calculation of basic loss per share for the six months ended 31st December, 2000 is based on the unaudited net loss attributable to shareholders of HK\$90,849,000 (1999: unaudited net loss attributable to shareholders of HK\$154,531,000) and the weighted average of 15,654,878,554 (1999: 11,036,101,205) ordinary shares in issue during the Period.

The weighted average number of ordinary shares in issue for last period has been adjusted to reflect the rights issue during last period.

(b) *Diluted loss per share*

No diluted loss per share for the six months ended 31st December, 2000 and 31st December, 1999 is shown as the effect of the outstanding warrants and the share options during these two periods would be anti-dilutive.

7. Property, Plant and Equipment

For the Period, the Group acquired property, plant and equipment of approximately HK\$10.9 million.

8. Investments in Associates

The investments in associates have not been accounted for in the Group's accounts under equity method. This is not in accordance with SSAP 10. As financial information made available was inadequate, it is unable to estimate the financial effect of the departure from an applicable accounting standard.

9. Trade Receivables

The Group's sales are on open account basis. The credit terms given to the customers generally depend on the financial strength of individual customers. An ageing analysis of trade receivables as at 31st December, 2000 is as follows:

	Unaudited 31st December, 2000 HK\$'000
Within 3 months	249,060
4 – 6 months	—
7 – 9 months	53
10 – 12 months	327
over 1 year	<u>3,058</u>
	<u><u>252,498</u></u>

10. Trade Payables

An aging analysis of trade payables as at 31st December, 2000 is as follows:

	Unaudited 31st December, 2000 HK\$'000
Within 3 months	30,081
Over 1 year	8,894
	<u>38,975</u>

11. Share Capital

	Number of shares 31st December, 2000 '000	HK\$'000
Issued and fully paid (ordinary shares of HK\$0.1 each)		
Beginning of period	13,817,378	1,381,738
Issue upon share placement	2,100,000	210,000
	<u>15,917,378</u>	<u>1,591,738</u>

12. Reserves

Movement of reserves for the six months ended 31st December, 2000 are:

	Unaudited									
	Share premium	Warrant subscription reserve	Capital reserve	Contributed surplus	Statutory reserve fund	Enterprise expansion fund	Revaluation reserve	Cumulative translation adjustments	Accumulated loss	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of period	180,716	33,967	72,409	26,784	3,615	58,384	18,463	4,021	(1,083,592)	(685,233)
Loss for the period	—	—	—	—	—	—	—	—	(90,849)	(90,849)
Premium arising from issue of shares upon share placement	105,000	—	—	—	—	—	—	—	—	105,000
Expenditures on share placement	(7,139)	—	—	—	—	—	—	—	—	(7,139)
Realisation of reserves upon disposal of a listed subsidiary	—	(699)	18,539	—	(161)	(2,482)	(1,172)	(131)	3,517	17,411
Realisation of reserves upon deemed disposal of a listed associate	—	(1,952)	(5,770)	—	(450)	(6,932)	(3,275)	(367)	8,706	(10,040)
Share of reserves movements of a listed associate	—	—	—	—	—	—	—	(6,459)	—	(6,459)
Translation adjustments	—	—	—	—	—	—	—	(424)	—	(424)
End of period	<u>278,577</u>	<u>31,316</u>	<u>85,178</u>	<u>26,784</u>	<u>3,004</u>	<u>48,970</u>	<u>14,016</u>	<u>(3,360)</u>	<u>(1,162,218)</u>	<u>(677,733)</u>

13. Operating Lease Commitments

As at 31st December, 2000, the Group had aggregate outstanding operating lease commitments in respect of rented premises under various non-cancellable operation lease agreements expiring on 19th May, 2003 amounting to approximately HK\$24,893,000. The commitments payable within the next twelve months are as follows:

	Unaudited 31st December, 2000 HK\$'000	Audited 30th June, 2000 HK\$'000
Leases expiring:		
— within two to five years	<u>10,063</u>	<u>9,534</u>

14. Contingent Liabilities

As at 31st December, 2000, the Group had contingent liabilities not provided for in the financial statements:

	Unaudited 31st December, 2000 HK\$'000	Audited 30th June, 2000 HK\$'000
Corporate guarantee in respect of banking facilities granted to — CDC and its subsidiaries (the “CDC Group”)	<u>161,585</u>	<u>0</u>

15. Connected Transactions

- (a) During the Period, the CDC Group and the Group had entered into the following connected transactions, on commercial term basis:
- (i) The CDC Group utilised banking facilities provided by various banks to the Group for which the Group and/or the CDC Group had given security and cross guarantees. As at 31st December, 2000, the total amount of such banking facilities utilised by the CDC Group was approximately HK\$160,951,000 (1999: HK\$171,999,000). During the Period, the CDC Group incurred interest for the amount of approximately HK\$439,000 (1999: HK\$2,069,000), which was paid for the utilisation of the Group’s banking facilities.
 - (ii) The CDC Group paid management fees in the amount of approximately HK\$654,000 (1999: HK\$178,000) to the Group for the use of office premises, warehouses and the facilities therein in Hong Kong.
 - (iii) The CDC Group paid transportation charges of approximately HK\$58,000 (1999: NIL) to the Group for the provision of transportation services.
 - (iv) The Group paid management fees in the amount of approximately HK\$7,772,000 (1999: Nil) to the CDC Group for the provision of management, administrative, accounting and financial services.
 - (v) The CDC Group paid rent in the amount of approximately HK\$3,257,000 (1999: Nil) to the Group for the use of office premises and the facilities therein in Hong Kong.
- (b) The amount due to the CDC Group is unsecured, non-interest bearing and without pre-determined repayment terms.

16. Related Party Transactions

Save as the transactions with the CDC Group as disclosed in note 15 to the financial statements, there were no other significant recurring transactions carried out in the ordinary course of business between the Group and related parties during the Period.

17. Subsequent Event

On 8th March, 2001, the Company, being the controlling shareholder of CDC, entered into a sale and purchase agreement with an independent third party for the disposal (“Proposed Disposal”) by the Company of 6,600 million shares in CDC, representing approximately 34% of the existing issued share capital of CDC. The Proposed Disposal is subject to the fulfillment of various conditions and is expected to be completed within 3 months’ time from the date of the agreement. After completion of the Proposed Disposal, the interest of the Company in CDC will be reduced from approximately 46.34% to approximately 12.34% and CDC will no longer be an associate of the Company.

INTERIM DIVIDEND

The Board has resolved not to declare interim dividend for the six months ended 31st December, 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECTS

For the six months ended 31st December, 2000 (the “Period”), the Group recorded a turnover of approximately HK\$336.9 million (1999: HK\$1.1 billion). Loss attributable to shareholders decreased by 41.2% from 154.5 million for the corresponding period in 1999 to HK\$90.8 million for the Period.

Of the total turnover of HK\$336.9 million, 11.6% represented turnover of China DigiContent Company Limited (“CDC”) and its subsidiaries (“CDC Group”) for the period during which the CDC Group was the subsidiary of the Group whereas the remaining 88.4% was contributed by the trading of computer parts and components. The decline in the turnover was mainly due to the exclusion of the turnover of the CDC Group since August 2000 following the disposal of a portion of the Group’s shareholdings in CDC which changed the status of CDC from being a subsidiary to an associate of the Company. In spite of the decline in turnover, the loss attributable to shareholders recorded for the period under review was reduced as compared to that recorded for the corresponding period of last financial year. Of the amount of operating loss, approximately HK\$44.1 million was due to loss on disposal/deemed disposal by the Group of shares in CDC.

To capitalise on the increase in demand for computers in the PRC, the Group has embarked on the manufacturing of computer products as well as the trading of their parts and components during the Period. The Group has commenced pilot production in December 2000 as scheduled and plans to start commercial production during the second quarter of 2001. As the Group has not yet started commercial production, trading in computer parts and component has become the main profit contributor to the Group for the Period recording a profit before taxation of approximately HK\$12.5 million.

On 8th March, 2001, the Company, being the controlling shareholder of CDC, entered into a sale and purchase agreement with an independent third party (the “Purchaser”) for the disposal (“Proposed Disposal”) by the Company of 6,600 million shares in CDC, representing approximately 34% of the existing issued share capital of CDC. The Proposed Disposal is subject to the fulfillment of various conditions and is expected to be completed within 3 months’ time from the date of the agreement. After completion of the Proposed Disposal, the interest of the Company in CDC will be reduced from approximately 46.34% to approximately 12.34%. Given the weak market sentiment, the Board considers that the Proposed Disposal is an appropriate way to raise funds for the Company for the reduction of its existing liabilities and for working capital purposes.

Consequent upon completion of the Proposed Disposal, CDC will no longer be an associate of the Company and its results will not be consolidated into the results of the Group. However, considering that the CDC Group has not been profitable in the past two years and that the Group has already diversified in other lines of businesses, the Board believes that the loss of the Group’s share in the results of the CDC Group will gradually be compensated by contribution from its other lines of businesses including computer manufacturing and trading as well as TFT-LCD business.

Looking forward, the Group will focus on its computer manufacturing and trading business and will seek to develop other high-tech projects.

FINANCIAL RESOURCES

As at 31st December, 2000, the Group had a consolidated net asset value of approximately HK\$914 million (as at 30th June, 2000: HK\$696.5 million). The Group’s bank borrowings as at 31st December, 2000 amounted to approximately HK\$801.1 million. The debt ratio of the Group as at 31st December, 2000 was 1.08, which was lower than 3.02 as recorded at 30th June, 2000. The current ratio decreased from 1.34 to 0.75 at the Period end.

During the Period, the Group has repaid a principal amount of approximately HK\$41.2 million to the financial creditors. In addition, the Group issued 2,100 million new shares to raise approximately HK\$307.9 million for its operations as well as to reduce its amount of outstanding debts due to the financial creditors.

DIRECTORS' INTERESTS

As at 31st December, 2000, the interests of the directors of the Company in the shares and options of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register required to be kept by the Company pursuant to the SDI Ordinance were as follows:

1. Share Capital

(a) *Interest in the Company*

Name of Directors	Number of Shares Held	Nature of Interest
Mr. Wong Shi Ling	3,763,489,437	Personal
	1,330,443,654	Family (Note)
Mr. Ling Yun Biao	1,128,754	Personal
Mr. Cheung Chi Sun	2,700,000	Personal

Note: These shares are held by Ms. To Kam Tai, the spouse of Mr. Wong Shi Ling.

(b) *Interest in Associated Corporation — China DigiContent Company Limited ("CDC")*

Name of Directors	Number of CDC Shares Held	Nature of Interest
Mr. Wong Shi Ling	190,646,526	Personal
	105,433,334	Family (Note)
Mr. Cheung Chi Sun	2,040,000	Personal

Note: These shares are held by Ms. To Kam Tai, the spouse of Mr. Wong Shi Ling.

2. Share Options

(a) *Interest in the Company*

The following share options were granted to the directors of the Company and remained outstanding as at 31st December, 2000:

Name of Directors	Number of Share Options Held		
	(Note 1)	(Note 2)	(Note 3)
Mr. Wong Shi Ling	150,000,000	70,000,000	—
Mr. Ling Yun Biao	12,500,000	10,000,000	—
Mr. Ling Kit Wah, Joseph	—	—	10,000,000

Notes:

1. The share options were granted to the above directors on 23rd July, 1999 entitling the holders to subscribe for shares of the Company at the subscription price of HK\$0.10 (subject to adjustment) per share at any time during the period from 23rd January, 2000 to 22nd January, 2002 pursuant to the share option scheme adopted by the Company.
2. The share options were granted to the above directors on 29th January, 2000 entitling the holders to subscribe for shares of the Company at the subscription price of HK\$0.21 (subject to adjustment) per share at any time during the period from 29th July, 2000 to 28th July, 2002 pursuant to the share option scheme adopted by the Company.
3. The share options were granted to Mr. Ling Kit Wah, Joseph on 4th September, 2000 entitling Mr. Ling to subscribe for shares of the Company at the subscription price of HK\$0.136 (subject to adjustment) per share at any time during the period from 4th March, 2001 to 22nd December, 2002 pursuant to the share option scheme adopted by the Company. Subsequent to the period end, these share options lapsed as a result of the resignation of Mr. Ling on 6th February, 2001.

(b) *Interest in Associated Corporation — CDC*

The following share options were granted by CDC to the directors of the Company and remained outstanding as at 31st December, 2000:

Name of Directors	Number of CDC Share Options Held	
	<i>(Note 1)</i>	<i>(Note 2)</i>
Mr. Ling Yun Biao	30,000,000	—
Mr. Cheung Chi Sun	2,200,000	—
Mr. Ling Kit Wah, Joseph	—	30,000,000

Notes:

1. The share options were granted by CDC to the above directors on 29th January, 2000 entitling the holders to subscribe for shares of CDC at the adjusted subscription price of HK\$0.11 (subject to adjustment) per share at any time during the period from 29th January, 2001 to 28th January, 2003 pursuant to the share option scheme adopted by CDC.
2. The share options were granted to Mr. Ling Kit Wah, Joseph on 4th September, 2000, entitling Mr. Ling to subscribe for shares of CDC at the subscription price of HK\$0.10 per share at any time during the period from 4th September, 2001 to 3rd September, 2003 pursuant to the share option scheme adopted by CDC. Subsequent to the period end, these share options lapsed as a result of the resignation of Mr. Ling on 6th February, 2001.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the Company had not been notified of any interest (other than that of the directors disclosed above) amounting to 10% or more of the issued share capital of the Company required to be disclosed pursuant to the SDI Ordinance.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 31st December, 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial matters including a review of the Interim Accounts.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31st December, 2000, in compliance with the "Code of Best Practice" as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors of the Company are not appointed for a specific term.

By Order of the Board
Wong Shi Ling
Chairman

Hong Kong, 23rd March, 2001