



# **LEAPTEK** Leaptex Limited

INTERIM REPORT **2001**

## **CORPORATE INFORMATION**

### **PLACE OF INCORPORATION**

Bermuda

### **EXECUTIVE DIRECTORS**

Hon Tung Keung (*Chairman & Chief Executive Officer*)

Xu Zhi Feng

Sean Liu (*resigned on 18 April 2002*)

Chen Jun Wei

Chen Jun

Hao Min

### **NON-EXECUTIVE DIRECTOR**

Song Hong Fang

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Ha Shu Tong, Albert

Chen Jing Xian (*appointed on 4 February 2002*)

Zhao Jiahe (*appointed on 30 April 2002*)

Choy Hok Man, Constance (*resigned on 28 December 2001*)

### **COMPANY SECRETARY**

Chan Yuk Yee (*appointed on 25 January 2002*)

Kwok Pun Tak (*resigned on 11 January 2002*)

### **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Units 2305-2308, 23/F., Sun Hung Kai Centre

30 Harbour Road, Wanchai, Hong Kong

### **REGISTERED OFFICE**

Clarendon House, 2 Church Street, Hamilton HM11, Bermuda

### **PRINCIPAL SHARE REGISTRAR**

Butterfield Corporate Services Limited

65 Front Street, Hamilton, Bermuda

### **BRANCH SHARE REGISTRAR**

Tengis Limited

4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong

### **AUDITORS**

KPMG, *Certified Public Accountants*

## INTERIM RESULTS

The Board of Directors (the "Directors") of Leaptex Limited (the "company") announces the unaudited interim results of the company and its subsidiaries (the "group") for the six months ended 30 September 2001 together with the unaudited comparative figures for the corresponding period in 2000. These interim financial statements have not been audited, but have been reviewed by KPMG and the company's audit committee.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2001 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	Note	2001 \$'000	2000 \$'000
<b>Turnover</b>	2	<b>4,979</b>	27,885
Cost of sales		<b>(4,487)</b>	(9,555)
Gross profit		<b>492</b>	18,330
Other income		<b>13</b>	3,173
Administrative expenses		<b>(13,154)</b>	(94,726)
Loss from operations	2	<b>(12,649)</b>	(73,223)
Finance cost		—	(1,873)
Loss on disposal of a subsidiary	3	<b>(1,224)</b>	—
Net realised and unrealised loss on trading and other securities carried at fair value		<b>(33,860)</b>	(16,202)
Share of loss of a jointly controlled entity		—	(4,657)
<b>Loss from ordinary activities before and after taxation</b>	4	<b>(47,733)</b>	(95,955)
Minority interests		—	1,113
<b>Loss attributable to shareholders</b>		<b>(47,733)</b>	(94,842)
Dividends	6	—	—
<b>Retained loss for the period</b>		<b>(47,733)</b>	(94,842)
<b>Loss per share</b>	8		
Basic		<b>(\$6.4) cents</b>	(\$15.2) cents
Diluted		<b>(\$4.9) cents</b>	(\$10.1) cents

The notes on pages 6 to 12 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

At 30 September 2001 (unaudited)

(Expressed in Hong Kong dollars)

	Note	At 30 September 2001 \$'000	At 31 March 2001 \$'000
<b>Non-current assets</b>			
Fixed assets	9	279	851
Investments	10	15,338	51,756
		<b>15,617</b>	52,607
<b>Current assets</b>			
Trade and other receivables	11	5,097	1,038
Cash and cash equivalents		3,185	9,207
		<b>8,282</b>	10,245
<b>Current liabilities</b>			
Trade and other payables	12	8,129	1,661
Amounts due to a shareholder		4,401	—
		<b>12,530</b>	1,661
<b>Net current (liabilities)/assets</b>		<b>(4,248)</b>	8,584
<b>Total assets less current liabilities</b>		<b>11,369</b>	61,191
Minority interests		—	2,089
<b>NET ASSETS</b>		<b>11,369</b>	59,102
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	13	<b>43,433</b>	43,433
<b>Reserves</b>	14	<b>(32,064)</b>	15,669
		<b>11,369</b>	59,102

The notes on pages 6 to 12 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2001 (unaudited)

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2001	2000
	\$'000	\$'000
<b>Net cash outflow from operating activities</b>	<b>(5,902)</b>	<b>(55,686)</b>
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>13</b>	<b>147</b>
<b>Net cash outflow from investing activities</b>	<b>(133)</b>	<b>(75,865)</b>
<b>Net cash inflow from financing</b>	<b>—</b>	<b>8,407</b>
<b>Decrease in cash and cash equivalents</b>	<b>(6,022)</b>	<b>(122,997)</b>
<b>Cash and cash equivalents at 1 April</b>	<b>9,207</b>	<b>151,955</b>
<b>Cash and cash equivalents at 30 September</b>	<b>3,185</b>	<b>28,958</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at bank and in hand	<b>3,185</b>	<b>28,958</b>

The notes on pages 6 to 12 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30 September 2001 (unaudited)

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2001	2000
	\$'000	\$'000
Net loss for the period	(47,733)	(94,842)
Asset revaluation reserve realised in the profit and loss account on deemed disposal of a subsidiary	—	(1,681)
<b>Total recognised losses</b>	<b>(47,733)</b>	<b>(96,523)</b>

The notes on pages 6 to 12 form part of this interim financial report.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

*(Expressed in Hong Kong dollars)*

### 1. BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the Board of Directors is included on page 13.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 March 2001 included in the interim financial report does not constitute the company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 March 2001 are available from the company's registered office. KPMG are first appointed as auditors for the group for the six months ended 30 September 2001. The previous auditors have expressed an unqualified opinion on those accounts in their report dated 26 July 2001.

The same accounting policies adopted in the annual accounts ended 31 March 2001 have been applied, except for the change in accounting policy for dividends recognition as disclosed in note 7 to the interim financial report.

The notes on the interim financial report 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 annual accounts ended 31 March 2001.

### Going concern

The group realigned its business and began to expand the business group to cover the markets of telecommunication products, systems integration and multi-media in the People's Republic of China (the "PRC"). The business expansion is subject to special risk and fast changing environment of the relevant business sectors. 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.

As at 30 September 2001, the company had 24,178,700 outstanding preference shares of \$1.00 each which should be redeemed at par on 22 October 2001 (note 13). On 15 October 2001, a demand letter was received from the preference shareholder requesting for redemption of the preference shares. The group is currently negotiating with potential investors to refinance these preference shares. The interim financial report has been prepared on a going concern basis which assumes that the refinancing arrangements are successful. If this assumption proves invalid the preparation of the interim financial report on a going concern basis may not be appropriate.

A substantial shareholder, Leap Network System Inc., has confirmed that it will provide such financial assistance as is necessary to maintain the company as a going concern. On the strength of this assurance, the Directors believe that it is appropriate to prepare the interim financial report on a going concern basis.

## 2. SEGMENTAL INFORMATION

The analysis of the principal activities and geographical location of the operations of the company and its subsidiaries during the financial period are as follows:

### Principal activities

	Group turnover Six months ended 30 September		Contribution to loss from operations Six months ended 30 September	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Manufacture and distribution of computer related products	4,834	12,067	(12,654)	(34,670)
Provision of e-business solutions and investments	—	15,818	—	(38,553)
Professional service fees	145	—	5	—
	<b>4,979</b>	27,885	<b>(12,649)</b>	(73,223)

### Geographical locations of operations

	Group turnover Six months ended 30 September		Contribution to loss from operations Six months ended 30 September	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
PRC				
— Hong Kong	—	23,293	—	(61,722)
— Taiwan	—	112	—	(319)
— Elsewhere	4,979	1,067	(12,649)	(3,041)
The United States of America	—	1,837	—	(5,236)
Others	—	1,576	—	(2,905)
	<b>4,979</b>	27,885	<b>(12,649)</b>	(73,223)

## 3. LOSS ON DISPOSAL OF A SUBSIDIARY

On 2 April 2001, the company sold the group's investment in a subsidiary, PacificLink iMedia Limited, to an independent third party. This transaction gave rise to a loss of \$1,224,000 and a net cash outflow of \$3,129,000. The net assets and turnover of the subsidiary constituted approximately 8% and 10% of the consolidated net assets and turnover respectively in the annual accounts for the year ended 31 March 2001.

## 4. LOSS FROM ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION

Loss from ordinary activities before and after taxation is arrived at after charging/ (crediting):

	Six months ended 30 September	
	2001 \$'000	2000 \$'000
Interest income	(13)	(2,020)
Depreciation		
— owned assets	51	9,222
— leased assets	—	1,358
Net (gain)/loss on sale of fixed assets	(377)	11,662
Write off of deferred development costs	—	4,315
Redundancy payment	5,515	—



**5. TAXATION**

No provision for Hong Kong and overseas profit tax has been made in the accounts as the group has sustained loss for the period.

**6. DIVIDENDS**

The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2001 (2000: \$Nil).

Since the preference shares dividends shall be paid subject to the approval of the Board of Directors and fulfillment of Section 54 of the Companies Act 1981 of Bermuda, no preference shares dividends have been recognised as a liability as at 30 September 2001. No dividend has been paid in respect of preference shares for the six months ended 30 September 2001. As at 30 September 2001, dividends for preference shares in arrear amounted to \$9,001,000 (as at 31 March 2001: \$6,293,000). The amount has not been provided for in the accounts under the new accounting policy, details of which are set out in note 7.

**7. CHANGE IN ACCOUNTING POLICY****Dividends**

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 April 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries, associates and jointly controlled entities is recognised as income in the company's profit and loss account in the accounting period in which they are declared.

As a result of the new accounting policy, preference shares dividends are not recognised as a liability until they are approved by the Board of Directors. Accordingly, the group's net assets as at 30 September 2001 have been increased by \$9,001,000 (31 March 2001: \$6,293,000). There is no impact on the group's loss attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of accumulated losses and the comparative information adjusted for the amounts relating to prior periods.

**8. LOSS PER SHARE****(a) Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders of \$47,733,000 (2000: \$94,842,000) and the weighted average number of 742,094,359 (2000: 624,530,200) ordinary shares in issue during the period.

**(b) Diluted loss per share**

The calculation of diluted loss per share is based on the loss attributable to ordinary shareholders of \$47,733,000 (2000: \$94,842,000) and the weighted average number of ordinary shares of 971,169,833 (2000: 940,718,962) shares after adjusting for the effects of all dilutive potential ordinary shares.

**9. FIXED ASSETS**

During the period, the group spent approximately 157,000 on additions of property, plant and equipment.

## 10. INVESTMENTS

	At 30 September 2001 \$'000	At 31 March 2001 \$'000
Listed in Hong Kong	15,338	35,410
Unlisted	—	16,346
Equity securities, at fair value	15,338	51,756
Market value of listed shares	15,338	35,410

At 30 September 2001, the carrying amount of interest in the following company exceeded 10% of total assets of the group:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
DigiTel Group Limited	The Cayman Islands	Provision of systems integration services	40,362,571 ordinary shares of HK\$0.1 each	3.90%

## 11. TRADE AND OTHER RECEIVABLES

	At 30 September 2001 \$'000	At 31 March 2001 \$'000
Accounts receivable	4,858	444
Prepayments, deposits and other receivables	239	594
	5,097	1,038

Included in trade and other receivables are accounts receivable (net of specific provisions for bad and doubtful debts) which aged within one month.

Accounts receivable are due within 60 days on average from the customers accepting the goods and related risks and reward of ownership.

## 12. TRADE AND OTHER PAYABLES

	At 30 September 2001 \$'000	At 31 March 2001 \$'000
Accounts payable	4,377	—
Other payables and accrued liabilities	3,752	1,661
	8,129	1,661

Included in trade and other payables are accounts payable due to a related company which are due within 3 months.

### 13. SHARE CAPITAL

	<b>At 30 September 2001 and 31 March 2001</b>	
	<b>No. of shares</b>	<b>Amount \$'000</b>
<b>Authorised:</b>		
Ordinary shares of \$0.01 each	3,000,000,000	30,000
Convertible cumulative non-voting preference shares of \$1.00 each	50,000,000	50,000
Convertible cumulative non-voting preference shares of \$0.10 each	350,000,000	35,000
		115,000
<b>Issued and fully paid:</b>		
Ordinary shares of \$0.01 each	742,094,359	7,421
Convertible cumulative non-voting preference shares of \$1.00 each	24,178,700	24,179
Convertible cumulative non-voting preference shares of \$0.10 each	118,333,333	11,833
		43,433

During the period, the movements in the number of share options outstanding under the share option scheme of the company were as follows:

<b>Date of options offered</b>	<b>Exercise price \$</b>	<b>Outstanding at 1 April 2001</b>	<b>Number of share options cancelled/ lapsed during the period</b>	<b>Outstanding at 30 September 2001</b>
2 October 1999	0.650	7,000,000	—	7,000,000
5 January 2000	2.650	14,815,000	(7,815,000)	7,000,000
20 March 2000	1.320	10,980,000	(5,480,000)	5,500,000
16 June 2000	0.930	800,000	(800,000)	—
16 June 2000	1.040	328,000	(328,000)	—
7 August 2000	0.550	18,630,000	(9,850,000)	8,780,000
14 August 2000	0.570	230,000	(230,000)	—
15 September 2000	0.490	10,000	(10,000)	—
31 October 2000	0.145	5,800,000	(600,000)	5,200,000
		58,593,000	(25,113,000)	33,480,000

The preference shares comprised the convertible cumulative non-voting preference shares of \$1.00 and \$0.10 each issued on 23 October 1996 and 17 December 1999 respectively.

**13. SHARE CAPITAL (Cont'd)**

The conversion rights of these preference shares are as follows:

- (i) The holders of the preference shares of \$1.00 each are entitled to convert their shares into ordinary shares at a conversion price of \$0.22 as adjusted. To the extent that the preference shares have not been converted on or prior to 15 October 2001, they shall be redeemed at par on 22 October 2001.
- (iii) The holders of the preference shares of \$0.10 each are entitled to convert their shares in multiple of 100,000 into ordinary shares at any time on or prior to the fifth anniversary of the date of issue at a conversion price of \$0.30 per share. To the extent that the preference shares have not been converted on or prior to the fifth anniversary of their issue date, they shall be redeemed by the company at the principal amount on that date.

None of the preference shares of \$1.00 each which were outstanding as at 30 September 2001 has been converted into ordinary shares on or prior to 15 October 2001 and no redemption was made on 22 October 2001. Total dividends for these preference shares in arrear for the period from 1 April 2001 to 15 October 2001 amounted to \$1,967,000.

**14. RESERVES**

	Share premium \$'000	General reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2001				
— As previously reported	266,076	51,111	(307,811)	9,376
— Prior period adjustments in respect of dividend proposed (note 7)	—	—	6,293	6,293
— As restated	266,076	51,111	(301,518)	15,669
Loss for the period	—	—	(47,733)	(47,733)
At 30 September 2001	266,076	51,111	(349,251)	(32,064)

**15. COMMITMENTS****(a) Commitments under operating leases**

At 30 September 2001, the group had commitments in respect of commercial properties under operating leases to make payments as follows:

	At 30 September 2001 \$'000	At 31 March 2001 \$'000
<b>Leases expiring:</b>		
Within 1 year	1,091	393
After 1 year but within 5 years	196	393
	<b>1,287</b>	<b>786</b>

**(b) Capital commitments**

At 30 September 2001, the group had capital commitments in respect of the capital contributions to subsidiaries in the PRC which amounted to approximately \$33,000,000.

#### 16. MATERIAL RELATED PARTY TRANSACTIONS

The group has the following material transactions with a related company controlled by a director who is also a substantial shareholder of the group during the six months ended 30 September 2001:

	Six months ended 30 September	
	2001	2000
	\$'000	\$'000
Purchases of goods	4,348	—
Rental expenses	645	—
Advances from a shareholder	4,401	—

Advances from a shareholder include the capital contributions and operating expenses of certain subsidiaries in the PRC.

The directors of the company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

#### 17. SUBSEQUENT EVENTS

On 22 April 2002, the Group received a verbal notice from a creditor demanding immediate settlement of the outstanding balance of approximately HK\$9,000,000. The Company is currently in negotiation with the creditor to explore for any other alternative repayment method.

Trading in the Company's shares was suspended with effect on 23 April 2002 and will remain suspended until further announcement as to whether the Company is able to comply with the requirements under the Listing Rules, in particular paragraph 38 of Appendix 7 regarding the sufficient level of operations and assets to warrant the continued listing of the Company's shares.

#### 18. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for dividends, details of which are set out in note 7.

2000 comparative figures for cost of sales, administrative expenses, net realised and unrealised loss on trading and other securities carried at fair value and segmental information have been reclassified to conform with the current period's presentation with an analysis of expenses using a classification based on the function of expenses instead of nature of expenses.

The change in presentation of items in the profit and loss account is due to the change in the group's principal activities after the disposal of certain subsidiaries. The change results in a more appropriate presentation of transactions.

## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF LEAPTEK LIMITED**

We have been instructed by the company to review the interim financial report set out on pages 2 to 12.

### **Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Fundamental uncertainties relating to the going concern basis**

In performing our review, we have considered the adequacy of the disclosures made in note 1 to the interim financial report concerning the adoption of the going concern basis on which the interim financial report has been prepared. As explained in note 1 to the interim financial report, the group is currently negotiating with potential investors to refinance the matured preference shares, details of which are set out in note 13 to the interim financial report. The directors believe that the negotiation will be successful and that the matured preference shares, together with the related dividends in arrear, will be redeemed and repaid through the refinancing arrangements.

The interim financial report has been prepared on a going concern basis, the validity of which depends upon the successful outcome of the refinancing arrangements. The interim financial report does not include any adjustments that would result from the failure of the implementation of these refinancing arrangements. We consider that appropriate estimates and disclosures have been made in the interim financial report.

We consider that whilst appropriate disclosures have been made, the fundamental uncertainties are so extreme that we are unable to reach a review conclusion as to whether the going concern basis of preparation is appropriate or whether material modifications should be made.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 13 May, 2002

## MANAGEMENT DISCUSSION AND ANALYSIS

*(Expressed in Hong Kong dollars)*

### **Operating results**

The results for the first six months was unsatisfactory with total turnover of the group having decreased by approximately 82% to \$4,979,000 compared with the same period last year. The drop in turnover was mainly attributable to the decisions made by the new management team to realign the business and dispose of certain subsidiaries.

### **Business review and prospects**

The company was acquired by Leap Group in April 2001. Having considered the future development of the company and the market condition, the board began to expand the business scope of Leaptex Limited to cover the markets of telecommunication products, systems integration and multi-media in the PRC. The company had put much effort on building customer relationship and distribution network, as well as on clientele expansion, staff training and cost saving. Such moves are expected to cement a solid foundation for the future development of the company. However, as the businesses are at their development stages and the market is generally in doldrums, no satisfactory profit has been made. When our businesses mature and the information technology market revives, we will see a turnaround in our profitability.

In view of the existing market environment, the board intends to transform the company into a high-end technology investment holding company. In addition to the existing businesses, the company will actively diversify into industries with promising outlook such as the biomedicine sector, in order to build a solid platform for future development and to maximize the value for shareholders.

The name of the company was changed from "netalone.com Limited" to "Leaptex Limited" on 25 September 2001. The company's Chinese name "力普有限公司" was registered with the Companies Registry of Hong Kong on 13 November 2001.

### **Financial review**

#### *Principal activities*

The company and its subsidiaries are principally engaged in the provision of internet-related services, focusing on e-business consultancy and e-venture and on that basis, are telecommunications and multi-media application provider.

#### *Capital structure and treasury policy*

As at 30 September 2001, the group had total assets of \$23,899,000, comprising fixed assets of \$279,000, investments of \$15,338,000, trade and other receivables of \$5,097,000, cash and cash equivalents of \$3,185,000, which were primarily financed by shareholders' funds of \$11,369,000.

Save for the convertible cumulative non-voting preference shares which have not been redeemed by the company on 22 October 2001, as at 30 September 2001, the group did not have any mortgage, charge, bank overdrafts, bank loans, other loans, obligations under finance leases or contingent liabilities.

#### *Significant investment*

As at 30 September 2001, the investment held by the group is DigiTel Group Limited ("DigiTel"). DigiTel is a listed company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The principal activities of DigiTel is the provision of systems integration services.

#### Foreign exchange exposure

Major functional currencies of the group are Hong Kong dollars and Reminbi. Foreign exchange exposure of the group is minimal.

#### Employees

As at 30 September 2001, the group employed 82 full time staff. Staff costs were \$7,661,000 for the period ended 30 September 2001 (2000: \$38,173,000). Remuneration includes monthly salaries, the retirement benefits under the Mandatory Provident Fund Scheme and redundancy payment.

### DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2001 (2000: \$Nil).

Since the preference shares dividends shall be paid subject to the approval of the Board of Directors and fulfillment of Section 54 of the Companies Act 1981 of Bermuda, no preference shares dividends have been recognised as a liability as at 30 September 2001. No dividend has been paid in respect of preference shares for the six months ended 30 September 2001.

### DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

At 30 September 2001, the interests of the directors and their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in the equity and debt securities of the company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance")), as recorded in the register maintained by the company under Section 29 of the SDI Ordinance or as otherwise notified to the company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### (a) Ordinary shares of HK\$0.01 each

Name of director	Number of ordinary shares of HK\$0.01 each	
	Nature of interest	Number of shares held
Mr. Hon Tung Keung	Corporate (Note)	159,051,090

#### (b) Convertible cumulative non-voting preference shares of HK\$0.10 each

Name of director	Number of preference shares of HK\$0.10 each	
	Nature of interest	Number of shares held
Mr. Hon Tung Keung	Corporate (Note)	118,333,333

Note: Both of these interests are held through Leap Network System Inc.. Leap Network System Inc. is a wholly owned subsidiary of Leap Technologies Inc., a company incorporated in the British Virgin Islands. The entire issued share capital of Leap Technologies Inc. is beneficially owned by Mr. Hon Tung Keung. Out of the 159,051,090 ordinary shares, 159,049,090 ordinary shares owned by Leap Network System Inc. are pledged to Korsair I. Moreover, all the 118,333,333 preference shares owned by Leap Network System Inc. are also pledged to Korsair I.



**(c) Convertible cumulative non-voting preference shares of HK\$1.00 each and share options**

At 30 September 2001, none of the directors or the chief executive had any interest in the convertible cumulative non-voting preference shares of HK\$1.00 each of the company nor had they been granted under the share option scheme of the company with any of the share options.

Save as mentioned above, none of the directors or the chief executive (including their spouse and children under 18 years of age) had been granted, or exercised, any rights to subscribe for ordinary shares in the company or any of its associated corporations during the period.

At no time during the period was the company or any of its subsidiaries a party to any arrangement to enable the directors of the company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS**

At 30 September 2001, according to the register maintained by the company under Section 16 of the SDI Ordinance, the following persons were interested in 10% or more of the nominal value of the issued share capital of the interests in shares in the company or any member of the group:

<b>Name of shareholders</b>	<b>Number of ordinary shares of HK\$0.01 each held</b>	<i>Note(s)</i>
(i) Leap Network System Inc.	159,051,090	1, 6 & 7
(ii) Leap Technologies Inc.	159,051,090	1, 6 & 7
(iii) Super China Development Limited	127,289,300	2
(iv) Universal Appliances Limited	127,289,300	2
(v) Kwan Wing Holdings Limited	127,289,300	2
(vi) Korsair I	159,049,090	3 & 6

<b>Name of shareholders</b>	<b>Number of preference shares of HK\$0.10 each held</b>	<i>Note</i>
(vii) Leap Network System Inc.	118,333,333	4
(viii) Leap Technologies Inc.	118,333,333	4

<b>Name of shareholders</b>	<b>Number of preference shares of HK\$1.00 each held</b>	<i>Note</i>
(ix) Super China Development Limited	24,137,700	5
(x) Universal Appliances Limited	24,137,700	5
(xi) Kwan Wing Holdings Limited	24,137,700	5

*Notes:*

- These 159,051,090 ordinary shares represent the same parcel of ordinary shares and are duplicated among the two substantial shareholders. Leap Network System Inc. is a wholly owned subsidiary of Leap Technologies Inc., a company incorporated in the British Virgin Islands. Accordingly, Leap Technologies Inc. being wholly and beneficially owned by Mr. Hon Tung Keung, the Chairman of the company, is deemed under the SDI Ordinance to have interests in the company which are held through Leap Network System Inc. Out of the 159,051,090 ordinary shares, 159,049,090 ordinary shares owned by Leap Network System Inc. are pledged to Korsair I, a company incorporated in the Cayman Islands.

2. These 127,289,300 ordinary shares represent the same parcel of ordinary shares and are duplicated among the three substantial shareholders. The interests of Kwan Wing Holdings Limited are held by Universal Appliances Limited in the company through Super China Development Limited.
3. These 159,049,090 ordinary shares of the company are pledged by Leap Network System Inc. to Korsair I.
4. These 118,333,333 preference shares of HK\$0.10 each represent the same parcel of preference shares and are duplicated among the two substantial shareholders. Leap Network System Inc. is a wholly owned subsidiary of Leap Technologies Inc., a company incorporated in the British Virgin Islands. Accordingly, Leap Technologies Inc. being wholly and beneficially owned by Mr. Hon Tung Keung, the Chairman of the company, is deemed under the SDI Ordinance to have interests in the company which are held through Leap Network System Inc. All the 118,333,333 preference shares owned by Leap Network System Inc. are pledged to Korsair I.
5. These 24,137,700 preference shares of HK\$1.00 each represent the same parcel of preference shares and are duplicated among the three substantial shareholders. The interests of Kwan Wing Holdings Limited are held by Universal Appliances Limited in the company through Super China Development Limited.
6. These 159,049,090 ordinary shares are part of the 159,051,090 ordinary shares of which Leap Network System Inc. and Leap Technologies Inc. are both interested.
7. The 159,051,090 ordinary shares referred to in the above parties (i) and (ii) relate to the same parcel of ordinary shares referred to as corporate interests in the company of Mr. Hon Tung Keung as set out in the section headed "Directors' interests in equity and debt securities".

Save for the aforesaid shareholders and the director as disclosed in "Directors' interests in equity and debt securities" above, as at 30 September 2001, no other person was recorded in the register kept pursuant to Section 16 of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the company or any member of the group.

#### **APPOINTMENT AND RESIGNATION OF DIRECTORS**

Ms. Chen Jing Xian was appointed as an independent non-executive director of the company with effect from 4 February 2002.

Mr. Zhao Jiahe was appointed as an independent non-executive director of the company with effect from 30 April 2002.

Ms. Choy Hok Man, Constance has resigned as an independent non-executive director of the company with effect from 28 December 2001.

Mr. Sean Liu has resigned as a director of the company with effect from 18 April 2002.

#### **APPOINTMENT AND RESIGNATION OF COMPANY SECRETARY**

Mr. Kwok Pun Tak has resigned as company secretary of the company with effect from 11 January 2002 and Ms. Chan Yuk Yee was appointed as company secretary of the company with effect from 25 January 2002.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 September 2001, there was no purchase, sale or redemption by the company, or any of its subsidiaries, of the company's listed securities.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the directors is aware of any information that would reasonably indicate that the company is not, or was not for any part of the period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting of the company in accordance with the Bye-laws of the company.

## **AUDIT COMMITTEE**

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the company has formed an audit committee comprising Mr. Ha Shu Tong, Albert, Mr. Zhao Jiahe and Ms. Chen Jing Xian, all of whom are independent non-executive directors of the company. The audit committee has been established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

The audit committee has reviewed with the management the accounting principles and practices adopted by the group and discussed internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 30 September 2001.

On behalf of the Board

**Hon Tung Keung**

*Chairman & Chief Executive Officer*

Hong Kong, 13 May 2002