

AUDITORS' REPORT

德勤 • 關黃陳方會計師行

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**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF LEAPTEK LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

AUDITORS' REPORT

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. Our opinion on the financial statements of the Group for the year ended 31 March 2002 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from substantial missing third party supporting documentation as explained by the Current Directors in note 2(b)(i) to the financial statements and because the Current Directors were unable to satisfy themselves as to whether the following amounts included in the consolidated balance sheet as at 31 March 2002 were free from material misstatement.
 - Investments in jointly controlled entities with nil amount;
 - Other investments of HK\$16,346,000 with provision for impairment loss on these investments of HK\$16,346,000;
 - Trade and other receivables of HK\$13,323,000;
 - Bank balances and cash of HK\$19,909,000;
 - Trade and other payables of HK\$29,837,000;
 - Amount due to a shareholder of HK\$5,691,000;
 - Short-term loan of HK\$1,414,000; and
 - Reserves with a net debit balance of HK\$40,245,000.

Accordingly, we were unable to form an opinion as to whether the net assets of the Group as at 31 March 2002, and the results and cash flows of the Group for the year then ended were free from material misstatement. Any adjustments to the opening net assets of the Group would affect the net loss and cash flows of the Group for the year ended 31 March 2003.

AUDITORS' REPORT

2. As explained in note 2(b)(ii) to the financial statements, the Current Directors have been unable to satisfy themselves as to whether the following amounts included in the consolidated income statement for the year ended 31 March 2003 are free from material misstatement:
 - Write back of accruals of HK\$2,130,000;
 - Allowance for doubtful recovery on other receivables of HK\$281,000;
 - Write-off of property, plant and equipment of HK\$36,000; and
 - Loss on disposal of subsidiaries of HK\$615,000.

3. As explained in note (2)(b)(iii) to the financial statements, certain subsidiaries of the Group have been deconsolidated from the Group's financial statements due to the inability of the Group to exercise control over these subsidiaries with effect from 1 April 2002, the date the latest financial statements of these companies are available. Particulars of these are set out in note 16 to the financial statements. However, we were unable to obtain sufficient evidence to satisfy ourselves that the Group lost control over these subsidiaries as at 1 April 2002. Accordingly, we were unable to satisfy ourselves as to the appropriateness of the deconsolidation. Also, because these subsidiaries were included in the consolidated financial statements for the year ended 31 March 2002 based on unaudited management accounts, the Current Directors have been unable to satisfy themselves that the gain on deconsolidation of HK\$525,000 included in the consolidated income statement for the year ended 31 March 2003, together with the associated disclosures in note 23 to the financial statements, are free from material misstatement.

4. As explained in note 2(b)(iv) to the financial statements, the Current Directors have been unable to obtain sufficient documentation to satisfy themselves as to whether trade and other payables amounting to approximately HK\$473,000 included in the consolidated balance sheet as at 31 March 2003 were free from material misstatement.

AUDITORS' REPORT

5. As explained by the Current Directors in note 2(b)(v) to the financial statements, the Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group for the period from 1 April 2002 to 21 June 2002 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements. Furthermore, the Current Directors have been unable to substantiate the validity of the capital commitments and contingent liabilities disclosed in notes 28 and 29 to the financial statements respectively. The Current Directors are also unable to represent as to the completeness of identification and disclosure of related party transactions for the period from 1 April 2002 to 21 June 2002.

Any adjustments to the above figures would, as appropriate, affect the net liabilities of the Group and the Company as at 31 March 2003 and the loss and cash flows of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 2(a) to the financial statements which explains the current financial difficulties of the Group. The Company's outstanding preference shares should have been redeemed at par in October 2001. Against this background, the Company is currently in negotiation with the preference shareholders to reschedule the repayment terms ("Refinancing Arrangements"). On 14 May 2003, the Company announced its intention to raise net proceeds of approximately HK\$6,000,000 from a rights issue ("Rights Issue") in order to settle the liabilities of the Group and for further expansion of the Group's distribution business. On the basis that the Refinancing Arrangements and the Rights Issue can be completed successfully, the Current Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on the going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from the failure to obtain such funding. We consider that appropriate disclosures have been made. However, in view of the extent of the uncertainty relating to the completion of the Refinancing Arrangements and the Rights Issue, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

AUDITORS' REPORT

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report and in view of the extent of the uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of accounts have been kept.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18 June 2003