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LEAPTEK LIMITED

INTERIM REPORT

BACKGROUND

Trading of shares of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") resumed on 15 May 2003 following the suspension of trading from 23 April 2002 as the result of the actions of the former management.

On 29 April 2002, the former chairman of the Company, Mr. Hon Tung Keung, on behalf of the then board of directors announced that the Group was experiencing financial and operational difficulties which resulted in the Company's stated inability to satisfy the requirement of maintaining tangible assets of sufficient value or a sufficient level of operation for continuing listing.

A special general meeting of the Company was held on 21 June 2002 when all the previous directors of the Company (except those previous directors who had resigned prior to such special general meeting and except one of the independent non-executive directors who was not removed) were removed, and a new board of directors were elected and appointed by the shareholders.

The new board immediately reviewed the operation and found that many of the Group's records were in the possession of the former management in Shanghai. The new board has taken all reasonable steps to regain control over the operations, and have repeatedly requested and demanded access to the Group's operations and books and records in Shanghai, but without success.

In preparing the financial statements, the Directors are only able to ascertain the affairs of the Group (except the subsidiaries related to the operation in Shanghai) after 21 June 2002, thus the Directors disclaim any liabilities on any information of the Group before 21 June 2002, including but not limit to, the completion of disclosure of claims, commitments and contingent liabilities in this interim financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

During the period, the Group recorded a consolidated turnover of approximately HK\$10,942,000 as compared to HK\$nil for the period ended 30 September 2002, and a loss of approximately HK\$3,549,000 as compared to a loss of approximately HK\$5,497,000 for the period ended 30 September 2002. All the turnover of the Group during the period was derived from the distribution business of computer related products and consumer electronics products in the PRC, including Hong Kong. The new business was established in December 2002. The loss for the current period was mainly due to an unrealized loss on short-term listed investments of HK\$1,400,000.

For the period under review, the trading in the computer related products was hampered by the Company's limited resources and the effects of SARS. The Company is seeking to raise additional working capital in order for it to be more competitive in its distribution business. The Company will seek to develop its distribution business and expand its product offerings so that it can take advantage of its industry and network channel contacts to increase its turnover and provide a positive return on investment.

Liquidity and Financial Resources

As at 30 September 2003, the current ratio was 0.08 (31 March 2003: 0.13) and as there was no long term liabilities or loans due from the Group, thus no gearing ratio was presented.

Capital and Funding Structure

The Company did not issue any new equity during the period. There was no change in the capital structure of the Company. During the period, the Group was mainly financed by a major shareholder. To the best knowledge of the Directors, the Group did not have any bank borrowings. The amount due to the major shareholder is in Hong Kong Dollars, bearing an interest rate of Hong Kong prime rate plus 2% per annum and is secured by the listed investment of the Group. The Group will rely on internal generated cash flows and other fund raising activities to finance the future working capital requirements. The Group's exposure to fluctuations in exchange rates is minimal as all the sales or purchases are determined either in Hong Kong Dollars or US Dollars. The Group has not made use of any financial instruments for hedging purposes.

Significant Investments Held

The Group still holds approximately 40 million shares in DigiTel Group Limited ("DigiTel"), a company listed on the GEM board of the Stock Exchange. Trading in the shares of DigiTel is currently suspended and we have made full provision against the value of such short-term listed investments during the period. Apart from the aforesaid, the Group did not hold any investment of significant value to the Group. The Directors have not made any material acquisition or disposal during the period. Save for the aforesaid, there was no charge to any of the assets of the Group.

Litigation and Contingent Liabilities

The Directors noted from an announcement dated 29 April 2002 made by the former directors that a verbal demand notice was received from one of the creditors demanding immediate settlement of outstanding payments of approximately RMB 9.6 million. However, the Directors of the Company have been unable to find any evidence of such a debt existing or find any evidence which might indicate the identity of the alleged creditors. No letters, reminder and/or demand notes have been received by the Company and no claim or winding up petition has been filed by such alleged creditors despite the fact that over a year has now passed. The Directors consider the risk in relation to the alleged liability turning out to be a valid liability to be remote, although the risk may still exist. Save for the aforesaid, the Directors are not aware of any litigation or contingent liabilities in those companies that the Directors are able to control. However, as the Directors still cannot access to all the books and records and do not have full understanding to the affairs before 21 June 2002 when they were appointed, the Directors disclaim any liabilities related to the completeness of the disclosure of claims, commitments and contingent liabilities in this financial statements.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 30 September 2003, besides the 5 directors, the Group had 10 full-time staff. 8 of which were employed by our agent in the PRC for the distribution business. 2 staff were in Hong Kong. Staff were paid fixed salaries and/or sales commissions depending on their job nature. The Group did not have any valid share option scheme and have not granted any options during the period. However, the Group offered discretionary year-end bonus based on individual merit. No bonus was paid during the period. The Group also offered necessary in-house training programs for all staff.

PROSPECT

In December 2002, the Company started a new operation to distribute certain integrated circuits to DVD drivers manufacturers. During the period, this distribution business recorded a turnover of approximately HK\$11 million, representing all the turnover of the Group. DVD players are becoming one of the most popular home entertainment products and a standard feature of personal computers. Manufacturers of DVD players in Europe, Taiwan and the United States are seeking cheaper solutions and tend to outsource their manufacturing to OEM factories in the PRC. Against the background, the Current Directors are hopeful that there will be an increasing demand from DVD driver manufacturers in the PRC for integrated circuits distributed by the Group.

Going forward, the Group will continue to increase the product offerings. The Group also needs to continue to strengthen its capital base and liquidity for future expansion and working capital needs. The management will seek opportunities to enhance the Group's financial and capital structure and to explore different investment opportunities that are synergistic and beneficial to the Group.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2003, none of the directors, the chief executive or their associates had any interests in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO Ordinance") or any of its associated corporations as defined in Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code.

SHARE OPTIONS

The Company does not have a valid share option scheme. During the period, the Company did not grant any share options and there were no share options outstanding as at the balance sheet date.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, chief executive nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the register of substantial shareholders maintained under Section 336 of the SFO showed that, the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholders	Number of ordinary shares of HK\$0.01 each held	
Ace Smart Assets Limited	159,049,090	<i>(Note 1)</i>
Yeung Wing Sang	159,049,090	<i>(Note 1)</i>
Super China Development Limited	127,289,300	<i>(Note 2)</i>
Universal Appliances Limited	127,289,300	<i>(Note 2)</i>
Universal Holdings Limited	127,289,300	<i>(Note 2)</i>
Kwan Wing Holdings Limited	127,289,300	<i>(Note 2)</i>
Ko Chun Shun, Johnson	127,289,300	<i>(Note 2)</i>

Name of shareholders	Number of convertible preference shares of HK\$0.10 each held	
Ace Smart Assets Limited	118,333,333	<i>(Note 1)</i>
Yeung Wing Sang	118,333,333	<i>(Note 1)</i>

Name of shareholders	Number of convertible preference shares of HK\$1.00 each held	
Super China Development Limited	24,137,700	<i>(Note 2)</i>
Universal Appliances Limited	24,137,700	<i>(Note 2)</i>
Universal Holdings Limited	24,137,700	<i>(Note 2)</i>
Kwan Wing Holdings Limited	24,137,700	<i>(Note 2)</i>
Ko Chun Shun, Johnson	24,137,700	<i>(Note 2)</i>

Notes:

1. The interests are held by Ace Smart Assets Limited directly. Mr. Yeung Wing Sang is the sole beneficial owner of Ace Smart Assets Limited. The convertible preference shares held by Ace Smart Assets Limited were convertible to 118,333,333 ordinary shares of the Company, subject to relevant adjustments.
2. The interests are held by Super China Development Limited, a direct wholly-owned subsidiary of Universal Appliances Limited ("UAL"). UAL is a wholly-owned subsidiary of Universal Holdings Limited ("UHL"), whose shares are listed on the Stock Exchange. At 30 September 2003, Mr. Ko Chun Shun, Johnson controlled more than 30% direct and indirect interests in UHL in person or through his 100% interests in Kwan Wing Holdings Limited. The 24,137,700 convertible preference shares held by Super China Development Limited were convertible to 109,716,818 shares of the Company, subject to relevant adjustments.

Other than above, the Company has not been notified of any interests representing 10% or more of the Company's issued share capital as at 30 September 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 September 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with the directors and 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 accounts for the six months ended 30 September 2003.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and appreciation to all management and staff members for their dedication, contributions and hard work for the period.

By Order of the Board
Wilton Timothy Carr Ingram
Non-executive Chairman

Hong Kong, 12 December 2003

CONSOLIDATED INCOME STATEMENT*Six months 30 September 2003*

	<i>Notes</i>	Six months ended	
		2003	2002
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover — Continuing operation	2	10,942	—
Changes in inventories of finished goods		112	—
Purchase of finished goods		(10,710)	—
Staff costs		(759)	(105)
Bad debts written off		—	(299)
Unrealised loss on other investment		(1,400)	(4,970)
Gain on disposal of subsidiaries		—	313
Other operating expenses		(1,631)	(436)
Loss from operation		(3,446)	(5,497)
Finance cost		(103)	—
Loss before taxation		(3,549)	(5,497)
Taxation	3	—	—
Loss for the period		(3,549)	(5,497)
		HK cents	HK cents
Loss per share	4		
Basic		(0.48)	(0.70)

CONSOLIDATED BALANCE SHEET*30 September 2003*

		30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
	<i>Notes</i>		
Non-current Assets			
Other investments	6	—	1,400
		—	1,400
Current Assets			
Inventories		477	365
Trade and other receivables	7	—	244
Bank balances and cash		58	1
		535	610
Current Liabilities			
Trade and other payables	8	3,326	2,817
Amount due to a shareholder	9	3,527	1,962
		6,853	4,779
Net Current Liabilities		(6,318)	(4,169)
		(6,318)	(2,769)
Capital and Reserves			
Share capital	10	43,433	43,433
Reserves		(49,751)	(46,202)
		(6,318)	(2,769)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)*For the six months ended 30 September 2003*

	Six months ended	
	30 September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	57	(445)
Net cash outflow from investing activities	—	(19,903)
Net cash inflow from financing	—	444
Decrease in cash and cash Equivalents	57	(19,904)
Cash and cash equivalents at 1 April	1	19,909
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	58	5
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	58	5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the six months ended 30 September 2003*

	Ordinary share capital <i>HK\$'000</i>	Preference share capital <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	7,421	36,012	51,111	266,076	(363,389)	(2,769)
Loss for the period	—	—	—	—	(3,549)	(3,549)
At 30 September 2003	7,421	36,012	51,111	266,076	(366,938)	(6,318)
At 1 April 2002	7,421	36,012	51,111	266,076	(357,432)	3,188
Loss for the period	—	—	—	—	(5,497)	(5,497)
At 30 September 2002	7,421	36,012	51,111	266,076	(362,929)	(2,309)

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- (a) The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies adopted and methods of computation used in the preparation of these financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2003 except that the revised SSAP 12 ("Income Taxes") issued by the HKSA have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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 amount of assets and liabilities in the financial statements and the corresponding tax basis 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 revised SSAP has had no major impact on the condensed consolidated financial statements.

Certain comparative figures have been reclassified to conform to the current period's presentation.

- (b) In preparing the financial statements, the Directors have given careful consideration to the going concern of the Group in the light of net current liabilities of approximately HK\$6,318,000 as at 30 September 2003.

As at 30 September 2003, the Company also had 24,178,700 outstanding preference shares of HK\$1.00 each which should have been redeemed at par on 22 October 2001. On 15 October 2001, the Company received a demand letter from a preference shareholder, who holds 24,137,700 preference shares of HK\$1.00 each, requesting for the redemption of the preference shares. No further action has been taken by this preference shareholder since 15 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 the further expansion of the Group's distribution business. The Company has entered into a conditional agreement with Mr. Ko Chun Shun, a shareholder of the Company, on 12 May 2003, to underwrite the Rights Issue.

Subsequently on 8 October 2003, the Company announced a proposal involving, amongst other things, a subscription of new share by an independent investor. The investor intends to inject a total of HK\$85 million into the then new holding company of the Company upon a proposed redomicile scheme becomes effective and the subscription becomes unconditional. For details of the subscription and the proposed redomicile scheme please refer to the announcement of the Company dated 8 October 2003. Both the subscription and the proposed redomicile scheme may or may not proceed, subject to the approvals of relevant regulatory authorities and the approval of the shareholders. The Company is in the process preparing the circular to be sent to the shareholders. Given the above, the Company has postponed the Rights Issue until further notice.

On the basis that the Refinancing Arrangements and the capital raising can be completed successfully, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

- (c) Due to the inability of the Group to control certain of its operating subsidiaries in the PRC, the Directors who were appointed after 21 June 2002, are of the opinion that these companies could no longer be treated as subsidiaries of the Group. As a result, these companies were treated as other investments in the Group's financial statements with effect from 1 April 2002, the date the latest unaudited management accounts of these companies are available.
- (d) The 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 30 September 2003 were free from material misstatement due to these payable were arisen before 21 June 2002.
- (e) The Directors have been unable to represent as to the completeness of recording of transactions entered into by the Group before 21 June 2002 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements. Furthermore, the Directors have been unable to substantiate the validity of the capital commitments and contingent liabilities, if there was any before 21 June 2002.

The Directors thus disclaim any liabilities in relation to the correction and the completion any information relating to the matter of the Company before 21 June 2002 in the interim report for this period-end.

2. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in manufacture and distribution of computer related products and consumer electronic products in the PRC, including Hong Kong. Accordingly, no analysis of segmental information is presented.

3. TAXATION

Hong Kong profits tax has not been provided (2002: nil) as the Group did not generate any assessable profits arising in Hong Kong for the period. Overseas profits tax has not been provided (2002: nil) as the foreign subsidiaries did not generate any assessable profits attributable to their operations their respective countries of operation or are still exempted from income tax during the period.

No deferred tax has been provided for the Company and the Group because there were no significant timing differences at the balance sheet date.

4. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period ended 30 September 2003 of HK\$3,549,000 (2002: HK\$5,497,000) and the weighted average of 742,094,359 (2002: 742,094,359) shares in issue during the period.

5. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the period (2002: Nil).

6. OTHER INVESTMENTS

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Unlisted shares	16,346	16,346
Amounts due from former subsidiaries	2,636	2,636
	18,982	18,982
Impairment loss recognised	(18,982)	(18,982)
	—	—
Listed shares in Hong Kong	30,675	30,675
Unrealised loss (<i>Note a</i>)	(30,675)	(29,275)
	—	1,400
	—	1,400
Market value of listed shares (<i>Note b</i>)	5,449	5,449

Notes:

- a. The unrealised loss as at 30 September 2003 was calculated by reference to the latest unaudited net asset value of DigiTel Group Limited ("DigiTel") as at 30 June 2003. Accordingly, the Directors are of the opinion that this basis is reasonable and appropriate to reflect the carrying value of the investments.
- b. Based on the last trading price before the suspension of trading of DigiTel on the Stock Exchange on 2 July 2002.

7. TRADE AND OTHER RECEIVABLES

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Trade debtors	—	—
Other receivables	—	244
	—	244

8. TRADE AND OTHER PAYABLES

	30 September 2003 (Unaudited) HK\$'000	31 March 2003 (Audited) HK\$'000
Trade creditors	—	—
Other payables	3,326	2,817
	3,326	2,817

9. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is secured by the listed investment of the Group, repayable on demand, bears interest at Hong Kong prime rate plus 2% per annum.

10. SHARE CAPITAL

	Ordinary shares of HK\$0.01 each		Convertible cumulative non-voting preference shares of HK\$1.00 each		Convertible cumulative non-voting preference shares of HK\$0.10 each		Total
	Number of shares	HK\$'000	Number of shares	HK\$'000	Number of shares	HK\$'000	
Authorised:							
At 30 September 2003 and 31 March 2003	3,000,000,000	30,000	50,000,000	50,000	350,000,000	35,000	
Issued and fully paid:							
At 30 September 2003 and 31 March 2003	742,094,359	7,421	24,178,700	24,179	118,333,333	11,833	43,433

Notes:

- a. The terms of the preference shares of HK\$1.00 each are set out in the relevant prospectus dated 3 October 1996 issued by the Company to its shareholders. The holders of the preference shares are entitled to convert their shares into ordinary shares at a conversion price of HK\$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, subject to the Act, redeemed at par on 22 October 2001.
- b. The terms of the preference shares of HK\$0.10 each issued on 17 December 1999 at a price of HK\$0.30 each ("Principal Amount") are as follows:
 - (i) the preference shares will be entitled to a cumulative annual dividend of 5% on the Principal Amount, payable semi-annually in arrears but will not be entitled to any further dividend distribution.

- (ii) such dividend shall be paid subject to the approval of the board of directors of the Company and the fulfilment of Section 54 of the Act.
- (iii) the holders of such preference shares will be entitled to convert their shares of the Principal Amount 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 HK\$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, subject to the Act, redeemed by the Company at the Principal Amount on that date.

11. OPERATING LEASE COMMITMENTS

The Group did not have significant operating lease commitment at 30 September 2003 and 31 March 2003.

12. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital commitments based on the disclosure in the interim report for the period ended 30 September 2001. However, the Directors do not have any other information available to substantiate the validity of this commitment.

	30 September 2003 and 31 March 2003 HK\$'000
Contracted for but not provided in the financial statements in respect of the capital contributions to its PRC subsidiaries	30,600

13. CONTINGENT LIABILITIES

The Directors noted from an announcement dated 29 April 2002 made by the former directors that a verbal demand notice was received from one of the creditors demanding immediate settlement of the outstanding debts of RMB9,600,000 (2002: RMB9,600,000). However, the Directors do not have any other information available to substantiate the validity of this claim.

15. RELATED PARTY TRANSACTIONS

During the period, the Group has entered into the following transactions with related parties:

	30 September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Management fee paid to a shareholder <i>(note a)</i>	120	—
Interest paid to a shareholder <i>(note b)</i>	103	—

Notes:

- (a) Management fee represented the allocation of expense which were based on estimated administrative costs including sharing of office premises and corporate management services which the management considered was an appropriate basis of allocation.
- (b) Interest expense was charged at Hong Kong Prime Rate plus 2% on the outstanding balance.