



**SING LEE SOFTWARE (GROUP) LIMITED**

**新利軟件(集團)股份有限公司**

(Incorporated in Bermuda with limited liability)

**A web**



**Annual Report 2001**

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*This annual report, for which the directors of Sing Lee Software (Group) Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Sing Lee Software (Group) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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# Corporate Information

## **EXECUTIVE DIRECTORS**

Hung Yung Lai  
Cui Jian  
Duan Patrick  
Li Kei Ling

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Pan Yun He  
Wang Gui Guo

## **COMPANY SECRETARY**

Luk Wai Mei, CPA (Aust), AHKSA

## **QUALIFIED ACCOUNTANT**

Luk Wai Mei, CPA (Aust), AHKSA

## **COMPLIANCE OFFICER**

Hung Yung Lai

## **AUTHORISED REPRESENTATIVES**

Hung Yung Lai  
Li Kei Ling

## **AUDIT COMMITTEE**

Wang Gui Guo (*Chairman*)  
Pan Yun He

## **AUDITORS**

Arthur Andersen & Co  
*Certified Public Accountants, Hong Kong*

## **PRINCIPAL BANKERS**

Bank of China (Hong Kong) Limited  
Bank of China, Hangzhou Branch  
Industrial and Commercial Bank of China  
Zhejiang Provincial Branch

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

32nd Floor, Morrison Plaza  
5-9A, Morrison Hill Road  
Wanchai  
Hong Kong

## **REGISTERED OFFICE**

Clarendon House  
2 Church Street  
Hamilton, HM11  
Bermuda

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

The Bank of Bermuda Limited  
6 Front Street  
Hamilton, HM11  
Bermuda

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Abacus Share Registrars Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## **GEM STOCK CODE**

8076

# Chairman's Statement

On behalf of the Board of Directors of Sing Lee Software (Group) Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I would like to present herewith the first Annual Report of the Group since its listing on the GEM of The Stock Exchange of Hong Kong Limited on 5 September 2001.

The turnover of the Group as at 31 December 2001 was approximately Rmb70.4 million, a decrease of approximately 19% over the previous year. Profit margin for the year was approximately 30%, a decrease of approximately 19% over last year. Profit attributable to shareholders of the Group for the year ended 31 December 2001 was approximately Rmb10.5 million, a reduction of approximately 3% over last year. Earnings per share was approximately Rmb2.09 cents (2000 : Rmb2.39 cents).

The Board recommends the payment of a final dividend of HK\$0.005 per share for the year ended 31 December 2001.

## BUSINESS REVIEW

In the wake of the PRC's formal accession to the WTO at the end of 2001, opportunities arise with challenges to the development of the financial industry in the PRC. In the PRC banking industry, the Group's customers are all head offices and local branch institutions of large and medium sized commercial banks in the PRC, all of which have been emphasizing on the investment in technology with a view to enhancing their competitive edges. However, during the year 2001, several nationwide commercial banks performed upgrade reforms to their own core systems independently, which have hindered the sales and the implementation of orders on the banking peripheral products of the Group directly. In spite of this, the Group managed to overcome these difficulties and forged close relationship and contacts with commercial bank customers in the PRC. In 2001, the Group's newly launched Bank Card Order Placement System (銀行卡委托交易系統), also known as "銀證通" (one of the ALLWEB banking series), has become a fast selling product, and another new product, the Wireless POS Payment System (無線POS支付理財系統) has been launched by the Group towards the end of 2001. Being a trial launch of the financial applications towards wireless direction, and the concept of "Wireless Application - Unlimited Application" having its debut, this system has therefore been in the spot-light among the industrial players at the end of 2001 with tremendous market potential. In 2001, the Group has completed the Multi-Bank POS Sharing System (多行POS共享) for the Yichang city of Hubei province together with the People's Bank of China and numerous commercial banks. The successful implementation of this project has won recognition for this product on an even larger scale, and prospects for this product is promising. In view of the connections of the Group with the various banks in the PRC, it will provide a comprehensive support to the development in the Group's IC card operations.

In 2001, the composite index of Shanghai Stock Exchange and the composite index of Shenzhen Stock Exchange fell by approximately 20.6% and 25.1% respectively. The adverse condition in the securities market during the whole year (especially during the second half) has led to the deterioration of the operations of the PRC brokerage firms, which in turn has a direct adverse impact in the short-term on the promotion of the Group's securities application solutions. For example, sales of the Telephone Order Placement System (電話委托系統) in the Group's securities application solutions, which is directly related with the securities market condition, has slid conspicuously, which has also hindered the promotion of the related hardware products which are sold as package with its sub-systems. Under such adverse market condition, the Group captured the opportunity of the market consolidation and timely proceeded with the upgrading and renewal of the core transaction system for the whole security industry. Following the completion and launching of the new product ALLWEB Enterprise Securities Transaction System, the existing transaction systems are being gradually replaced, and the ALLWEB Enterprise Securities Transaction System is now starting to secure market share, it is

## Chairman's Statement

anticipated that growth in 2002 will be even larger. The new products of "Integrated Securities Infrastructure Platform" (新一代證券綜合業務平台) and "Unicorn" (區域集中平台) which the Group launched at the end of 2001 have attracted attention from various securities customers. The "Integrated Securities Infrastructure Platform" (新一代證券綜合業務平台) has participated in the tender of a large securities company in the PRC, whereas agreement has been entered into with two medium sized securities companies on "Unicorn" (區域集中平台), one of which has started to implement. The Directors expect that the full launch of these two new products will bring significant returns to the Group.

### RESEARCH AND DEVELOPMENT

In order to ensure the long-term growth of the Group's operations and to meet market demands, the Group is transforming from a supplier of traditional financial software solutions for the PRC financial industry into a financial network technology and solutions provider in the PRC. Since the end of 2000, the Group took the lead in introducing the ALLWEB concept to the PRC financial IT industry, and through the adoption of web technology and the incorporation of web functions in the new product designs, it provided application solutions to the PRC financial industry using extensive network technology, so as to achieve an all-compatible model of the All-on-Web. In 2001, the Group continued to incorporate the ALLWEB concept into its product development, and has invested substantial development resources in it.

In 2001, the Group completed the R&D on some of the products for the ALLWEB series, in particular, the most important products include the ALLWEB Enterprise Securities Transaction System for the PRC brokerage firms, the Bank Card Order Placement System (銀行卡委托交易系統) for the PRC commercial banks and the Wireless Financial Management System. Development of other products of the ALLWEB series are also under way.

### MARKET DEVELOPMENT AND SALES

Prior to 2001, the Group focussed on the reliance of distribution network, setting up additional regional offices and recruiting additional service personnel in order to carry out marketing and services. As from 2001, the Group began to focus on the business expansion in major cities, and has completed the upgrading of sales offices in Beijing, Shanghai and Shenzhen, making them regional headquarters for business expansion. Following the enhancement of the Group's sales capability and management capability, part of the marketing efforts of the regional offices are gradually concentrated to the regional headquarters.

In 2001, the Group has initially completed the construction of its internal information network, and is gradually transforming the simple direct customer service to be an on-line one, upgrading its customer responding efficiency with a Face to Face on Web service model. With the application of such a model, the original reliance on the recruitment of employees and additional offices to maintain the ever-expanding customer services changes gradually and will be able to attain the continued reduction in the cost of customer services.

In 2001, the Group continued to participate in large technological product exhibitions of the financial IT industry, the most important events being the Chinese Securities and Futures Electronic Technology Fair in April and the Chinese International Financial (Banking) Technology and Equipment Exhibition in September. The Group also participated as a Primary Observer in the Chinese Securities IT Technology seminar organized by the China Securities Regulatory Commission, where the IT management of various major securities companies were participating members.

In 2001, the Group continued to forge good strategic partner relationship with internationally renown IT enterprises, in particular, the Group has entered into a tripartite strategic cooperation agreement with the BEA Systems Company and Oracle Software Systems Co., Ltd. during the third quarter of 2001, which consolidated the Group's position to provide upgraded, systematic and personalized application system solutions to the financial industry in the PRC.

### MANAGEMENT

In 2001, Hangzhou Singlee Software Company Limited, an indirectly wholly-owned subsidiary of the Company, was awarded the ISO 9001 certification in November, which is evident that the quality management model of the Group has attained a certain level. At the same time, the Group has been implementing the CMM (Capability Maturity Model) standard, which is recognised by the software industry worldwide in implementing the quality control in its internal software developing procedures. The Directors of the Group are currently focussing on the successful implementation of CMM. The Directors believe that this may enhance the quality of the Group's software products, the development efficiency and may improve cost control. In 2001, in compliance with the CMM standards, the Group carried out a readjustment of its own development procedures, personnel training and workflow, and completed the selection of CMM appraisal institution.

### FUTURE OUTLOOK

The Directors of the Group are confident that upon the completion of the improvement to the core system of banking customers, extensive upgrading and renewal of the peripheral systems will bring forth even greater opportunities to the Group. At the same time, the Credit Card “銀聯” network promoted by the People's Bank of China has started to operate on some inter-city networks since January 2002. “銀聯” will make it possible for the linked-usage of credit cards issued by different commercial banks on a nationwide multi-regional scale in the PRC, thereby providing tremendous opportunities and market to the Group's promotion of new credit card technology solutions and new products.

As for the securities IT business, the Directors of the Group are confident that the adverse condition in the PRC securities market is simply a normal cyclical fluctuation. The PRC securities market is an integral part of the economic development of the PRC. Since its founding, the Group has fully witnessed the ups and downs in the development history of the PRC securities industry, and the Group's securities IT business grows thrives in an uneven course. The Group will continue with its efforts to provide an overall solution to the PRC securities industry with network technology as the core, which will help securities companies to achieve their objective of providing better and more comprehensive services at lower costs to their customers. The PRC securities industry has broad horizon ahead, where huge potential of development can be seen. The Directors believe that the Group has accumulated considerable industrial experience and good reputation through the years in the banking industry and securities industry in the PRC, which are important foundation and strengths for the future continued development of the Group.

# Chairman's Statement

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my gratitude to all the shareholders who have been rendering their support to the Group, and all the staff who have been so dedicated and have been working so hard. In addition, I would also like to express my sincere gratitude to the customers, business partners, suppliers and bankers for their confidence and trust in the Group.

**Hung Yung Lai**

*Chairman*

25 March 2002

# Management Discussion and Analysis

## FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2001

### FINANCIAL REVIEW

The Group is principally engaged in the development and sale of information and network technologies and services to the financial industry in Mainland China (the “PRC”).

During the year ended 31 December 2001 (“the reported year”), the securities market in the PRC was not as strong as that in year 2000. This has resulted in a certain contraction in the securities brokerage business in the PRC. Also, certain commercial banks in the PRC took the initiative to restructure themselves, which had an impact on the sales of the securities and banking solutions of the Group as well as the sales of related hardware.

During the year 2001, several nationwide commercial banks performed upgrade reforms to their own core systems independently, which have hindered the sales and the implementation of orders on the banking peripheral products of the Group directly.

In 2001, the composite index of Shanghai Stock Exchange and the composite index of Shenzhen Stock Exchange fell by approximately 20.6% and 25.1% respectively. The adverse condition in the securities market during the whole year (especially during the second half) has led to the deterioration of the operations of the PRC brokerage firms, which in turn has a direct adverse impact in the short-term on the promotion of the Group’s securities IT solutions. For example, sales of the Telephone Order Placement System (電話委托系統) in the Group’s securities application solution, which is directly related with the securities market condition, has slid conspicuously, which has also hindered the promotion of the related hardware products which are sold as package with its sub-systems.

In this regard, the Group recorded a consolidated turnover of approximately Rmb70.4 million for the reported year, representing a drop of approximately 19% over last year (2000: Rmb87.0 million). Turnover comprises:

	Turnover	
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sales of software	<b>34,826</b>	35,609
Sales of hardware	<b>30,360</b>	45,825
Maintenance income	<b>5,230</b>	5,594
	<b>70,416</b>	87,028

In light of keen competition in PRC, selling prices of some of the Group’s major products like POS machines, Singlee Bank/Brokerage Firm Account Transfer System (銀證轉帳), and Telephone Order Placement System (電話委托系統) dropped by approximately 13%, 30% and 21% respectively.

## Management Discussion and Analysis

Gross profit of the Group decreased by approximately 36% to approximately Rmb20.9 million for the reported year (2000: Rmb32.6 million). Gross profit margin shrank to approximately 30% (2000: 37%). Gross margin decreased mainly due to thinner gross margin for the new product Bank Card Order Placement System (銀行卡委托交易系統) which accounted for significantly towards the Group's turnover during the reported year. Decrease in gross margin was also attributable to price cut of some of the Group's major products mentioned above and rise in staff costs due to enhanced sales network and rise in average wages.

Profit attributable to shareholders decreased by approximately 3% to approximately Rmb 10.5 million (2000: Rmb 10.8 million). Profit attributable to shareholders decreased to a lesser extent than gross profit because of an other income of PRC value added tax refund of approximately Rmb 6.0 million recorded during the reported year (2000: Rmb nil). Please refer to note 16 and 19 of the notes to the financial statements for details.

### LIQUIDITY, FINANCIAL RESOURCES AND DEBT RATIO

Aggregate outstanding borrowings of the Group as at 31 December 2001 were Rmb 11.0 million (2000: Rmb 11.0 million), representing short term bank loans all repayable within one year. The Group does not have any committed bank facilities as at 31 December 2001.

The debt ratio (defined as total liabilities over total assets) of the Group as at 31 December 2001 was approximately 35% (2000: 81%). The significant improvement was due to listing proceeds received from the initial public offer.

No interest was capitalized by the Group during the reported year (2000: nil).

### CAPITAL STRUCTURE, EXPOSURE TO EXCHANGE RATES FLUCTUATION

As at 31 December 2001 all of the Group's bank borrowings of Rmb 11.0 million were denominated in Renminbi, of which Rmb1.0 million was secured by the Group's bank deposits. All such bank borrowings were at fixed interest rates during the term of the loan, and bore interest ranging from 5.02% to 6.14% (2000: from 5.30% to 5.85%) per annum.

As at 31 December 2001 the Group held cash and cash equivalents denominated in Hong Kong Dollars, US Dollars and Renminbi. Please refer to note 9 of the notes to the financial statements for details.

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. The Group had prudent policy to manage currency and interest rate exposures, and as most of the Group's monetary assets and liabilities are denominated in Renminbi, US Dollars and Hong Kong Dollars, the exchange rate risks of the Group is considered minimal.

### FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, trade and receivables and payable, other receivable and payable, borrowings and balances with related parties approximate their fair values because of the short maturity of these instruments.

The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

## PROSPECTS OF NEW PRODUCTS

Please refer to business review, research and development, market development and sales and future outlook discussed in the Chairman's Statement for a discussion on this.

## SIGNIFICANT INVESTMENT

Other than the establishment of an indirectly wholly owned subsidiary, Hangzhou Singlee Technology Company Limited, the Group did not have significant investments during and at the end of the reported year.

## SEGMENTAL INFORMATION

Please refer to note 30 of the notes to the financial statements for details. The Group conducts its business in Mainland China within one business segment and within one geographical segment. Please refer to business review, research and development, market development and sales and future outlook discussed in the Chairman's Statement for a discussion on industry and market conditions, as well as new products introduced.

## STAFF

As at 31 December 2001 the Group employed 400 employees (2000: 373) at market remuneration with employee benefits such as defined contribution retirement schemes, employee share option scheme and medical coverage. Total staff costs for the reported year were approximately Rmb 13.0 million (2000: approximately Rmb 10.5 million). The increase in staff costs was due to firstly, increase in headcount due to enhanced sales network and secondly, a rise in average wages of about 10% to 15% and lastly, the addition of headcount last year (year 2000) happened mainly towards the end of that year.

## CHARGE ON ASSETS

Other than a US\$136,000 (2000: US\$125,000) bank deposits of the Group was used as security to secure a Rmb 1 million (2000: Rmb 1 million) bank loan and HK\$1,400,000 bank deposits were pledged as security for certain banking facilities, as at 31 December 2001 and 2000, the Group did not have any charge on its asset. Please refer to notes 9, 14 and 15 of notes to the financial statements.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Details of the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the Company's prospectus dated 30 August 2001 under the sections headed "Statement of Business Objectives" and "Reasons for the New Issue and Use of Proceeds" respectively. Progress of these has been dealt with in sections headed "Comparison of Use of Proceeds" and "Review of Business Objectives" in this annual report. Other than those disclosed, the Group did not have any plan for material investments or capital assets.

## CONTINGENT LIABILITIES

As at 31 December 2001 the Group did not have any material contingent liabilities (2000: nil).

# Management Discussion and Analysis

## COMPARISON OF USE OF PROCEEDS

The net proceeds raised from the public listing on 5 September 2001 were approximately HK\$61.9 million. The proceeds had been applied to achieve the business objectives as set out in the prospectus dated 30 August 2001 and are detailed below:

	<b>Use of proceeds as stated in the prospectus HK\$'000</b>	<b>Actual amount Utilized up to 31 December 2001 HK\$'000</b>
Research and development of new products and technologies	25.0	2.0
Sales, marketing and promotion	7.5	0.6
Expansion of regional offices, implementation of CMM and enhancement of internal information network infrastructure	5.5	0.1
Repayment of bank loans and other borrowing (i)	8.3	12.1
Repayment of shareholder's loan	4.2	4.2
General working capital	11.4	5.8
Placed with banks	0.0	38.0

Unused net proceeds of approximately HK\$38.0 million have been placed with licenced banks in Hong Kong and PRC, and would be used to achieve objectives as stated in the prospectus.

(i) The excess utilization is attributable to the Group's decision to decrease its debt level.

## REVIEW OF BUSINESS OBJECTIVES

### Objectives up to 31 December 2001 as stated in the prospectus dated 30 August 2001

### Actual business progress up to 31 December 2001

1. ALLWEB banking solution

I. Bank CRM solution

(i) Complete the system requirement analysis and system design of ALLWEB bank customer service centre

(ii) Complete the system requirement analysis and system design of ALLWEB bank customer information analysis system

II. Bank financial management system

(i) Complete development of bank card order placement system for bank-securities finance management system

(ii) Complete system requirement analysis and development of application modules of bank-insurance finance management system

(iii) Complete system development of bank-fund finance management system

(iv) Trial marketing of bank-fund finance management system

III. Bank account manager system

(i) Launch bank IC card application system to a specific industrial sector

(ii) Complete system development of various modules of multiple bank POS application system

IV. Bank supervision system

Complete system development of bank internal audit system

(i) & (ii) Completed the system requirement analysis for bank customer service centre and bank customer information analysis system

(i) Completed development of bank card order placement system for bank-securities finance management system and successfully made an early market launch

(ii) System requirement analysis is in progress

(iii) & (iv) Completed system development of bank-fund finance management system and is currently under trial marketing

(i) Launched bank IC card application system with the bank as the basis and facing the medical social security

(ii) Completed the system development of various modules of multiple bank POS application system

Completed system development of bank internal audit system

# Management Discussion and Analysis

## Objectives up to 31 December 2001 as stated in the prospectus dated 30 August 2001

### 2. ALLWEB securities solution

#### I. Brokerage CRM solution

(i) Complete system development of ALLWEB brokerage customer service centre

(ii) Complete system development of ALLWEB brokerage customer information centre

(iii) Complete requirement analysis of ALLWEB brokerage customer information decision system

#### II. ALLWEB enterprise securities transaction system

Full launch of ALLWEB institutional securities transaction system and gradually replace the Singlee SL-IV system

### 3. ALLWEB electronic financial service platform

#### I. Complete the full design of system platform

II. Full launch of electronic securities trading function of the platform

III. Full launch of wireless securities financial management function of the platform

IV. Test trial of family financial management system based on the cable network

V. Complete the system development of electronic banking and wireless banking financial management functions of the platform

## Actual business progress up to 31 December 2001

(i),(ii)&(iii) Completed requirement analysis of Brokerage CRM solution

Successfully launched ALLWEB enterprise securities transaction system to replace the original version, and is currently developing its upgraded version.

I. Completed the initial design of system platform

II. Electronic securities trading function of the platform has been applied on the ALLWEB enterprise securities transaction system

III. Completed development of wireless securities financial management function and is currently under trial marketing

IV. R&D on family financial management system based on the cable network is in progress

V. Completed R&D on wireless banking financial management functions and successfully launched to market

## Objectives up to 31 December 2001 as stated in the prospectus dated 30 August 2001

## Actual business progress up to 31 December 2001

### 4. Business development & information network

I. Complete initial construction of Group's internal information network infrastructure

II. Expand Group's regional sales offices in Shenzhen

### 5. Marketing & promotion

I. Participate in PRC banking products exhibitions

II. Organise seminar on application solution technology of PRC securities industry

### 6. CMM

I. Evaluate development process, training of personnel and redefine development process

II. Select CMM appraisal agency

I. Completed initial construction of Group's internal information network infrastructure, and a part of it has been opened to customers for after-sale service

II. Completed expansion of Group's Shenzhen sales offices in the 3rd Quarter, and has become regional headquarters

I. Participated Chinese International Financial (Banking) Technology and Equipment Exhibition held in September 2001

II. Participated IT technology seminar of PRC securities industry organised by CSRC as a Primary Observer

I. Completed evaluation of development process, training of personnel and redefine development process

II. Basically completed the selection of CMM appraisal agency

# Management Discussion and Analysis

## THREE-YEAR FINANCIAL SUMMARY

The reorganisation referred in note 1 to the financial statements has been reflected in the three-year financial summary by treating the Company as having been the holding company of the Group from the earliest period presented.

	<b>Year ended 31 December 2001 <i>Rmb'000</i></b>	Year ended 31 December 2000 <i>Rmb'000</i>	From 27 May 1999 to 31 December 1999 <i>Rmb'000</i>
Turnover	<u><b>70,416</b></u>	<u>87,028</u>	<u>38,254</u>
Profit attributable to shareholders	<u><b>10,460</b></u>	<u>10,826</u>	<u>3,044</u>
Total assets	<b>131,526</b>	62,484	42,893
Total liabilities	<u><b>(45,842)</b></u>	<u>(50,678)</u>	<u>(31,904)</u>
Net assets	<u><b>85,684</b></u>	<u>11,806</u>	<u>10,989</u>

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year ended 31 December 2001 attributable to the Group's major suppliers and customers are as follows:

### Purchases

— the largest supplier	17.8%
— five largest suppliers combined	48.9%

### Sales

— the largest customer	4.1%
— five largest customers combined	15.3%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

# Biographical Information of Directors and Senior Management

## EXECUTIVE DIRECTORS

*Mr. Hung, Yung Lai*, aged 57, is the co-founder, Chairman and President of the Group. Mr. Hung holds a degree from Shanghai Conservatory of Music. He has over 20 years of experience in company management and strategic planning, including 8 years of experience in managing high-tech enterprises. Mr. Hung is also familiar with managing businesses in the PRC. He is responsible for the Group's overall strategy and corporate development.

*Mr. Cui, Jian*, aged 48, is the Director, Vice Chairman and Vice President of the Group. Mr. Cui is one of the founders of Hangzhou Singlee Software Co., Ltd. and has served the Group since its establishment in 1993. He is responsible for the Group's investment and planning. Prior to joining the Group, he served as the Director of the development department of Hangzhou Automated Research Institute, the PRC and the Chief of Hangzhou Hua-Yuan Micro-Industrial Application Research Institute, the PRC. Mr. Cui received his tertiary education in management from Zhejiang College of Television Broadcasting.

*Mr. Duan, Patrick*, aged 50, is the Director, Vice President and CTO of the Group. Mr. Duan joined the Group on 20 September 1999 and is responsible for the Group's technology development and strategic planning. Mr. Duan has accumulated over 15 years of experience in IT management; prior to joining the Group, he has served as the IT Director of Actel Corporation and held various senior managerial positions in several large IT firms in the United States including Applied Materials, Inc. and Ross System. Mr. Duan received his MBA from the University of San Francisco, USA.

*Ms Li, Kei Ling*, aged 53, is the Director of the Group. Ms. Li is also the co-founder of the Group. Ms. Li has over 20 years of experience in managing corporate development and finance, especially for PRC businesses. She is responsible for managing the Group's finance, corporate development and capital raising activities.

## INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

*Professor Pan, Yun He*, aged 55, is the Independent Non-Executive Director of the Group. Mr. Pan is the President of Zhejiang University, one of the most reputable universities in the PRC; he was appointed the post of the President of Zhejiang University by the State Council in September 1998 and was also recognised as a vice-ministerial level official in February 2000. Mr. Pan received his master degree in Computer Science from Zhejiang University, the PRC. He became a member of China Academy of Engineering, one of the highest level academic institutes in the PRC in November 1997. Professor Pan joined the Group in April 2001.

*Professor Wang, Gui Guo*, aged 49, is the Chair Professor of Chinese Law and Comparative Law at City University of Hong Kong. He is a member of the International (Hague) Comparative Law Academy and he is also the chairman of Hong Kong World Trade Organisation Research Centre. Professor Wang received his master's degree in legal studies from Columbia University in the USA and a Doctor of Philosophy in legal studies from Yale University in the USA. He is also a visiting professor of People University of China, the Tianjin Nan Kai University and the Wuhan University. He had also served in several reputable law firms in United States as well as in Canada. Professor Wang joined the Group in April 2001.

# Biographical Information of Directors and Senior Management

## SENIOR MANAGEMENT

*Mr. Huang, Jie*, aged 32, is the General Manager of Hangzhou Singlee Software Co., Ltd. responsible for the overall management of this subsidiary of the Group. Mr. Huang has served the Group since its establishment in May 1993 and accumulated over 8 years of experience in marketing, technology development and management. He holds a university degree in radio from the Zhejiang College of Metrology.

*Mr. Xia, Tian Shu*, aged 31, is the Technical Director of Hangzhou Singlee Software Co., Ltd. responsible for the Group's technological development. Since joining the Group in December 1994, he has been engaged principally in the area of technological development for the Group and has successfully coordinated the development and launch of several of the Group's key new products. Mr. Xia is fluent in the application of major computer languages, he obtained his university degree from the Zhejiang Industrial University.

*Mr. Sun Xi Wei*, aged 31, is the Director of R&D Center of the Group. Mr. Sun joined the Group in June 1994 and has been responsible for technological development. He graduated from Zhejiang University.

*Mr. Lu Yu Cao*, aged 29, is the Director of R&D Center of Hangzhou Singlee Software Co. Ltd. Mr. Lu joined the Group in May 1996 and has been responsible for technological development. He graduated from Zhejiang University.

*Mr. Xu, Kehan*, aged 29, is the Assistant to President, HR Director, and Chief Investment Development Officer of the Group. He joined the Group in January 1998 and has since been involved in public relationships and international cooperation for the Group. Mr. Xu obtained his MBA from University of Miami in May 2001. Meanwhile, he also received the full scholarship in Ph.D. program in Finance from University of Kentucky. Since he came back to serve the Group in July 2001, Mr. Xu, under the leadership of the President of the Group, designed the restructuring strategies, corporate level process planning, and motivation systems for the Group. He has been working for Salomon Smith Barney as an Investment Analyst in US for one year. Mr. Xu holds a B.S. from Criminal Police College of China.

# Report of the Directors

The board of Directors (“Board”) of Sing Lee Software (Group) Limited (the “Company”) submit their first report together with the audited accounts for the year ended 31 December 2001.

## GROUP REORGANISATION

The Company was incorporated in Bermuda as an exempted company with limited liability on 27 October 2000 under the Company Act 1981 of Bermuda. In preparation for the listing of the Company’s shares on GEM, a group reorganization was effected whereby the Company became the holding company of the Group on 27 August 2001. The shares of the Company (the “Shares”) were listed on GEM on 5 September 2001 (the “Listing Date”).

The results of the Group have been prepared on a uniting of interests basis as if the current group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the respective subsidiaries now comprising the Group, whichever is a shorter period. The basis of preparation for these accounts is set out in note 1 to the financial statements.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 5 to the accounts. The Group is principally engaged in the development and sale of information and network technologies and services to the financial industry in Mainland China.

## RESULTS AND APPROPRIATIONS

The results for the year are set out in the combined statement of income on page 29.

The Board recommends the payment of a final dividend of HK\$0.005 per share for the year ended 31 December 2001.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 11 to the accounts.

## DONATIONS

No charitable and other donations were made by the Group during the year.

## FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 3 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 10 to the accounts.

# Report of the Directors

## DISTRIBUTABLE RESERVES

Pursuant to the Company Act 1981 of Bermuda, share premium of the Company is distributable to the shareholders. At 31 December 2001, the Company's reserves available for distribution to shareholders amounted in total to approximately Rmb79,238,000 (2000: Rmb Nil).

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register required to be kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") shows that shareholders interested in 10% or more of the issued share capital of the Company were as follows:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Goldcorp Industrial Limited	414,000,000 <i>(note 1)</i>	68.7%
Great Song Enterprises Limited	414,000,000 <i>(note 2)</i>	68.7%
Mr. Hung Yung Lai	414,000,000 <i>(note 2)</i>	68.7%
Ms. Li Kei Ling	414,000,000 <i>(note 3)</i>	68.7%

*Notes:*

1. Goldcorp Industrial Limited is a company incorporated in the British Virgin Islands equally owned by Mr. Hung Yung Lai and Great Song Enterprises Limited which in turn is wholly owned by Ms Li Kei Ling.
2. The Shares were held by Goldcorp Industrial Limited.
3. Ms. Li Kei Ling controls more than one third of the voting power of Great Song Enterprises Limited which in turn holds more than one third of the voting power of Goldcorp Industrial Limited. Ms Li Kei Ling is deemed, by virtue of the SDI Ordinance, to be interested in the same 414,000,000 shares held by Goldcorp Industrial Limited.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Shares in the Company:

As at 31 December 2001, the interests of the Directors and Chief Executives in the shares of the Company and its associated corporations (within the meaning of the SDI Ordinance), recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Exchange pursuant to minimum standards of dealing by Directors as refer to in rule 5.40 were as follows:

Name of directors	Number of shares	
	Personal interests	Corporate interests
Mr. Hung Yung Lai	Nil	414,000,000 (note 1)
Ms. Li Kei Ling	Nil	414,000,000 (note 1)

Note:

- The Shares were held by Goldcorp Industrial Limited, a company equally owned by Mr. Hung Yung Lai and Great Song Enterprises Limited which in turn is wholly owned by Ms. Li Kei Ling. Mr. Hung Yung Lai controls more than one third of the voting power of Goldcorp Industrial Limited. Ms. Li Kei Ling controls more than one third of the voting power of Great Song Enterprises Limited which in turn holds more than one third of the voting power of Goldcorp Industrial Limited. Mr. Hung Yung Lai and Ms. Li Kei Ling are deemed, by virtue of the SDI Ordinance, to be interested in the same 414,000,000 shares held by Goldcorp Industrial Limited.

## SHARE OPTION SCHEME

Pursuant to the share option scheme for employees which was adopted on 27 August 2001, the Directors may at their discretion grant options to employees and directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the share option scheme. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

No share options were granted by the Company during the period from the Listing Date to 31 December 2001.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year ended 31 December 2001 was the Company, or its subsidiaries a party to any arrangements to enable the directors of the Company, their spouse and children under 18 to acquire benefits by means of acquisition of shares in the Company.

## MANAGEMENT SHAREHOLDERS

Save for the Directors, management shareholders and substantial shareholders as herein disclosed, the Directors are not aware of any persons who as at 31 December 2001 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

# Report of the Directors

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period from the Listing Date to 31 December 2001.

## COMPETING INTERESTS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in GEM Listing Rules) has an interest in a business, which competes or may compete with the businesses of the Company.

## INTEREST OF SPONSOR

Core Pacific-Yamaichi Capital Limited (the "Sponsor") has entered into a sponsorship agreement with the Company whereby, for a fee, the Sponsor will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the remaining period up to 31 December 2003.

As updated and notified by the Sponsor, as at 31 December 2001 the Sponsor held 3,000,000 Shares (approximately 0.5% of the issued share capital) in the Company.

Saved as disclosed above, to the best knowledge of the Sponsor, neither the Sponsor nor its directors or employees or associates, as at 31 December 2001, had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

## DIRECTORS

The Directors of the Company during the year were:

### Executive Directors

Hung Yung Lai	(appointed on 23 November 2000)
Cui Jian	(appointed on 23 November 2000)
Duan Patrick	(appointed on 27 August 2001)
Li Kei Ling	(appointed on 27 August 2001)

### Independent Non-Executive Directors

Pan Yun He	(appointed on 27 August 2001)
Wang Gui Guo	(appointed on 27 August 2001)

In accordance with Article 87 of the Company's Bye-Laws, Cui Jian will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of 3 years from 27 August 2001 which may be terminated by either party thereto giving to the other not less than six calendar month's prior notice in writing, which notice period shall not expire until after the first year.

Each of the independent Non-Executive Directors was appointed for a period of two years commencing from their appointment dates.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS AND CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Except for the following contracts (please refer to appendix V of the Company's prospectus dated 30 August 2001), no contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company or a controlling shareholder or any of its subsidiaries, had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year:—

- (i) A computer software copyright assignment agreement dated 18 March 2001 between Hangzhou Singlee Electronics Company Limited ("Singlee Electronics") and Hangzhou Singlee Software Company Limited ("Singlee Software") whereby, inter alia, Singlee Electronics assigned the copyright of certain computer software to Singlee Software for a consideration of Rmb 230,000.

Singlee Electronics is indirectly owned as to 40% by Mr. Hung Yung Lai, as to 40% by Ms Li Kei Ling and as to 20% by Mr. Cui Jian.

- (ii) A sale and purchase agreement dated 27 August 2001 between, among others, the Company and Goldcorp Industrial Limited ("Goldcorp") whereby, inter alia, the Company acquired the entire issued share capital of Sing Lee Electronics (B.V.I.) Co., Limited ("Singlee BVI") from Goldcorp in consideration of the issue and allotment of 2,000,000 shares of the Company credited as fully paid to Goldcorp and crediting as fully paid the 10,000,000 shares of the Company held by Goldcorp.

Goldcorp is a company equally owned by Mr. Hung Yung Lai and Ms Li Kei Ling.

- (iii) An instrument of transfer dated 27 August 2001 between Goldcorp and the Company whereby Goldcorp transferred 715 shares of US\$1.00 each in Singlee BVI to the Company in consideration of (a) the issue and allotment of 2,000,000 fully paid shares of the Company and (b) crediting as fully paid up the 10,000,000 shares of the Company issued as nil paid to Goldcorp on 23 November 2000.

## Report of the Directors

- (iv) A novation agreement (in Chinese) dated 27 August 2001 entered into among Singlee Software, Singlee Electronics, Singlee BVI, Goldcorp and Mr. Duan Patrick relating to the novation and set off of arrangements of certain group debts which resulted in a loan of Rmb 5,393,709.99 which was interest free and payable on demand was due and owed by Goldcorp to Singlee BVI.
- (v) A deed of assignment and offset dated 27 August 2001 among the Company, Singlee BVI and Goldcorp relating to the assignment and set off arrangements in relation to certain group debts (included the Rmb 5,393,709.99 owed from Goldcorp to Singlee BVI which arose as a result of novation agreement referred to in paragraph (iv) above) which resulted in a loan of Rmb 8,314,768 due and owed from the Company to Goldcorp.
- (vi) A deed of indemnity dated 27 August 2001 given by Goldcorp, Mr. Hung Yung Lai and Ms. Li Kei Ling in favour of the Group.

### CONNECTED TRANSACTIONS

Details of related party transactions are disclosed in note 25 to the accounts. Arthur Andersen & Co, the Company's auditors, has reviewed such transactions which were conducted in accordance with the terms of the relevant agreements.

The Independent Non-executive Directors have reviewed the exempted connected transactions as disclosed in the Prospectus and confirmed that during the period from 1 January 2001 to 31 December 2001, such transactions are:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms (to the extent there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

The Independent Non-executive Directors were of the view that the Group should continue such connected transactions.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM of the Stock Exchange.

## AUDIT COMMITTEE

The Company established an audit committee on 27 August 2001 with written terms of reference in compliance with the requirements of Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the board of Directors.

The following sets out the members of the Group's audit committee:

<b>Name</b>	<b>Position in the audit committee</b>	<b>Position in the Board of Directors</b>
Prof. Wang, Gui Guo	Chairman	Independent Non-executive Director
Prof. Pan, Yun He		Independent Non-executive Director

One meeting was held during the year ended 31 December 2001, since the Company was listed on the GEM on 5 September 2001.

## AUDITORS

The accounts have been audited by Arthur Andersen & Co who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Hung Yung Lai**

*Chairman*

Hong Kong, 25 March 2002

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of the Members of Sing Lee Software (Group) Limited (“the Company”) will be held at Plaza 4, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 25 April 2002 at 10:00 a.m. for the following purposes:-

- 1 To receive and consider the audited combined financial statements and the reports of the Directors and the Auditors for the financial year ended 31 December 2001;
- 2 To declare a final dividend;
- 3 To re-elect retiring director and authorize the board of directors to fix his remuneration;
- 4 To re-appoint Auditors and to authorise the board of directors to fix their remuneration;
- 5 To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:-

(A) **“THAT**

- (i) subject to sub-paragraph (ii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved.
- (ii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any ordinary share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; and

- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting.

“Rights Issue” means offer of shares of the Company open for a period fixed by the Directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

**(B) “THAT**

- (i) subject to paragraph (ii) below, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all powers of the Company to repurchase issued shares in the capital of the Company on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting.”

## Notice of Annual General Meeting

- (C) “**THAT** conditional upon ordinary resolutions nos. 5(A) and 5(B) above being passed, the aggregate nominal amount of shares of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution nos. 5(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to ordinary resolution no. 5(A) above.”

By Order of the Board

**Hung Yung Lai**

*Chairman*

Hong Kong, 25 March 2002

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton, HM11  
Bermuda

*Head office and principal place of business:*

32nd Floor., Morrison Plaza  
5-9A Morrison Hill Road  
Wanchai  
Hong Kong

*Notes:*

- (a) The Register of Members will be closed from Thursday, 18 April 2002 to Thursday, 25 April 2002 (both days inclusive), during which period no transfer of shares can be registered.
- (b) All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Wednesday, 17 April 2002.
- (c) A Member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a Member of the Company.
- (d) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's principal office at 32nd Floor, Morrison Plaza, 5-9A Morrison Hill Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the Meeting.
- (e) An explanatory statement containing further details regarding Resolutions 5 above will be sent to shareholders together with the 2001 Annual Report.



**ANDERSEN**

**Arthur Andersen & Co**

21st Floor Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

## **TO THE SHAREHOLDERS OF SING LEE SOFTWARE (GROUP) LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the accompanying balance sheet of Sing Lee Software (Group) Limited (the "Company") and combined balance sheet of the Company and its subsidiaries (the "Group") as of 31 December 2001 and the related combined statements of income, recognised gains and losses and cash flows of the Group for the year then ended. These financial statements set out on pages 28 to 62 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above give a true and fair view of the financial position of the Company and the Group as of 31 December 2001 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

*Certified Public Accountants*

Hong Kong,

25 March 2002

# Balance Sheets

As of 31 December 2001

(Expressed in thousands of Renminbi ("RMB"))

	Note	Group		Company	
		2001 RMB'000 (Note 1)	2000 RMB'000 (Note 1)	2001 RMB'000	2000 RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment, net	3	9,176	5,824	42	16
Intangible assets	4	2,728	—	—	—
Investment in subsidiaries	5	—	—	51,868	—
		<u>11,904</u>	<u>5,824</u>	<u>51,910</u>	<u>16</u>
<b>Current assets</b>					
Inventories	6	7,513	8,788	—	—
Trade receivables, net	7	38,719	23,810	1,526	—
Deposits, prepayments and other receivables	8	13,276	12,091	254	2,918
Due from a director	25	—	455	—	—
Due from related parties	25	21	5,002	21	—
Cash and cash equivalents	9	60,093	6,514	33,710	—
		<u>119,622</u>	<u>56,660</u>	<u>35,511</u>	<u>2,918</u>
<b>Total assets</b>		<u><b>131,526</b></u>	<u><b>62,484</b></u>	<u><b>87,421</b></u>	<u><b>2,934</b></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	10	6,392	106	6,392	106
Reserves	11	79,292	11,700	79,238	(2,741)
		<u>85,684</u>	<u>11,806</u>	<u>85,630</u>	<u>(2,635)</u>
<b>Current liabilities</b>					
Trade payables	12	11,180	9,894	15	—
Accruals and other payables		1,383	964	300	—
Customers' deposits	13	6,820	12,386	—	—
Due to related parties	25	—	6,605	—	5,569
Bills payable	14	1,476	—	1,476	—
Short-term borrowings	15	11,000	11,000	—	—
Tax payable	16	12,112	7,824	—	—
Deferred income	17	1,871	2,005	—	—
		<u>45,842</u>	<u>50,678</u>	<u>1,791</u>	<u>5,569</u>
<b>Total equity and liabilities</b>		<u><b>131,526</b></u>	<u><b>62,484</b></u>	<u><b>87,421</b></u>	<u><b>2,934</b></u>

Approved by and signed on behalf of the Board of Directors on 25 March 2002

**Mr. Hung Yung Lai**  
Chairman

**Ms. Li Kei Ling**  
Director

# Combined Statement of Income

For the year ended 31 December 2001  
(Expressed in thousands of RMB except for earnings per share)

	<i>Note</i>	<b>Group</b>	
		<b>2001</b>	2000
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
		<b><i>(Note 1)</i></b>	<i>(Note 1)</i>
Revenue	18	<b>70,416</b>	87,028
Cost of sales		<b>(49,482)</b>	(54,437)
Gross profit		<b>20,934</b>	32,591
Distribution costs		<b>(1,508)</b>	(2,693)
General and administrative expenses		<b>(14,565)</b>	(14,980)
Other operating income	19	<b>7,094</b>	609
Profit from operations		<b>11,955</b>	15,527
Finance costs	20	<b>(1,196)</b>	(771)
Profit before tax	21	<b>10,759</b>	14,756
Income tax expense	22	<b>(779)</b>	—
Profit after tax		<b>9,980</b>	14,756
Minority interests	11	<b>480</b>	(3,930)
Profit attributable to shareholders		<b>10,460</b>	10,826
Dividends	23	<b>1,500</b>	9,900
Earnings per share	24		
— Basic		<b>RMB 2.09 cents</b>	RMB 2.39 cents
— Diluted		<b>N/A</b>	N/A

# Combined Statement of Recognised Gains and Losses

For the year ended 31 December 2001  
(Expressed in thousands of RMB)

		<b>Group</b>	
	<i>Note</i>	<b>2001</b>	2000
		<b><i>RMB '000</i></b>	<i>RMB '000</i>
		<b><i>(Note 1)</i></b>	<i>(Note 1)</i>
Exchange differences on translation of the financial statements of foreign entities	11	<u>4</u>	<u>—</u>
Net gain not recognised in the income statement		4	—
Profit attributable to shareholders		<u>10,460</u>	<u>10,826</u>
Total recognised gains		<u><u>10,464</u></u>	<u><u>10,826</u></u>

# Combined Statement of Cash Flows

For the year ended 31 December 2001  
(Expressed in thousands of RMB)

	<i>Note</i>	<b>Group</b>	
		<b>2001</b>	2000
		<b>RMB'000</b>	RMB'000
		<b>(Note 1)</b>	(Note 1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash (used in) provided by operations	28 (a)	<b>(2,014)</b>	1,420
Interest paid		<b>(1,196)</b>	(811)
Income taxes paid		<b>(779)</b>	—
		<hr/>	<hr/>
Net cash (used in) provided by operating activities		<b>(3,989)</b>	609
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		<b>(5,532)</b>	(4,259)
Additions of intangible assets		<b>(2,739)</b>	—
Cash paid for equity investment		—	(4,134)
Interest received		<b>367</b>	39
		<hr/>	<hr/>
Net cash used in investing activities		<b>(7,904)</b>	(8,354)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issue of shares		<b>76,320</b>	—
Share issuance expenses		<b>(10,828)</b>	—
Dividends paid		<b>(1,500)</b>	(9,900)
Cash received from bank loans		—	6,000
		<hr/>	<hr/>
Net cash provided by (used in) financing activities		<b>63,992</b>	(3,900)
Net increase (decrease) in cash and cash equivalents		<b>52,099</b>	(11,645)
Cash and cash equivalents at beginning of year		<b>6,514</b>	18,159
Effect of foreign exchange differences		<b>4</b>	—
		<hr/>	<hr/>
Cash and cash equivalents at end of year	28 (b)	<b>58,617</b>	6,514
		<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 1. OPERATIONS, GROUP REORGANISATION AND BASIS OF ACCOUNTING FOR BUSINESS COMBINATION

Sing Lee Software (Group) Limited (the “Company”) was incorporated in Bermuda on 27 October 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited since 5 September 2001.

The Company and its subsidiaries are collectively referred to as the “Group”. On 21 February 2001, Mr. Hung Yung Lai (“Mr. Hung”) and Ms. Li Kei Ling (“Ms. Li”), the ultimate majority shareholders and directors of the Company, increased their interests in Sing Lee Electronics (B.V.I) Co., Ltd. (“Singlee BVI”) from 73.4% to 100%, and then transferred all their interests in Singlee BVI to the Company through a share exchange on 27 August 2001. Pursuant to the aforesaid group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on the GEM, the Company became the holding company of the Group on 27 August 2001. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been account for on the basis of the pooling of interests method under which the combined financial statements for the years ended 31 December 2000 and 2001 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years, rather than from the date on which the Reorganisation was completed. The directors consider Goldcorp Industrial Limited (“Goldcorp”), incorporated in the British Virgin Islands (“BVI”), to be the ultimate holding company.

The Company is an investment holding company. Its subsidiaries established in Mainland China are principally engaged in the development, manufacture and sale of software products, sale of related hardware products and provision of software-related technical services.

The Group’s head office and principal place of business in Mainland China is located in Jie Neng Huan Bao Technology Park, No. 108 Gu Cui Road, Hangzhou, Zhejiang Province, The People’s Republic of China. The registered office of the Company is in Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

The Group principally operates in the Mainland China and employed approximately 400 employees as at 31 December 2001.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and the Group are as follows:

### (a) Basis of presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. Except as otherwise stated, the accompanying financial statements are prepared under the historical cost convention.

Owing to the fact that the Group principally operates in Mainland China and its business activities are principally transacted in RMB, the financial statements are prepared in RMB.

### (b) Principles of combination

The combined financial statements include the accounts of the Company and its subsidiaries.

As set out in Note 1 above, the combined financial statements incorporate the effects of the Reorganisation, which has been accounted for using the pooling of interest method.

All significant intercompany balances and transactions, including intercompany profits and unrealised profits and losses, are eliminated on combination. Combined financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

### (c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (c) Property, plant and equipment (Cont'd)

Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives are as follows:

Leasehold improvements	5 years
Computer and related equipment	5 years
Other office equipment	5 years

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the determination of the results of operations.

### (d) Research and development costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply strictly with the following criteria:

- (i) the product or process is clearly defined and costs are separately identified and measured reliably;
- (ii) the technical feasibility of the product is demonstrated;
- (iii) the product or process will be sold or used in-house;
- (iv) a potential market exists for the product or its usefulness in case of internal use is demonstrated; and
- (v) adequate technical, financial and other resources required for completion of the project are available.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

### (e) Software

The cost of acquisition of new software is capitalised and treated as an intangible asset if the cost is not an integral part of the related hardware. Software is amortised on a straight-line basis over 3 years.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (f) Subsidiaries

A subsidiary is a company in which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investment in subsidiaries are accounted for using the equity method. An assessment of investment in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value, after provision for obsolete items. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (h) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

### (i) Cash and cash equivalents

Cash represents cash in hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### (j) Turnover and revenue recognition

Turnover represents revenue from sale of computer software and hardware, and revenue from post contract customer services, mainly maintenance income, after excluding applicable business tax and value added tax (“VAT”).

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (j) Turnover and revenue recognition (Cont'd)

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue from sale of software is recognised on the following bases:

- (i) persuasive evidence of an arrangement exists;
- (ii) delivery has occurred or service has been performed;
- (iii) the vendor's fee is fixed or determinable; and
- (iv) collectibility is probable.

Revenue from sale of hardware is recognised upon delivery of goods and when the title is passed to the customers.

Maintenance revenue is recognised on a time proportion basis over the period of the contract.

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on assets.

### (k) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of assets that necessarily takes a substantial period of time to get ready for their intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

### (l) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Leases payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (m) Taxation

The Group companies provide for income tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant taxable or deductible temporary differences between the carrying amount of assets or liabilities in the balance sheet and their respective tax bases. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deferred tax assets can be utilised.

### (n) Foreign currency translation

The Company and its BVI subsidiary maintain their books and records in Hong Kong dollars (“HK\$”). The subsidiaries established in Mainland China maintain their books and records in Renminbi (“RMB”). Transactions denominated in other currencies are translated into the reporting currencies at exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into the reporting currencies at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated into the reporting currencies at historical rates. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognised in the results of operations in the period in which they arise.

On combination, all of the assets and liabilities of Group companies with reporting currencies other than RMB are translated into RMB at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of Group companies with reporting currencies other than RMB are translated into RMB at the average applicable exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

### (o) Retirement scheme

The Group's contributions to retirement schemes are charged to the results of operations in the period to which they are related.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (p) Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in expense for items of fixed assets and intangible assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

### (q) Provisions

A provision is recognised when, and only when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Gain from the expected disposal of assets are not taken into account in measuring the provision. Property, plant and equipment that is retired from active use is carried at the lower of the carrying amount or estimated net selling price less cost of disposal.

### (r) Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

### (s) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, accounts receivable and payable, other receivable and payable, loans, and balances with related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

### (t) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### (u) Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

### 3. PROPERTY, PLANT AND EQUIPMENT, NET

Movements in property, plant and equipment were:

	Group			Total <i>RMB'000</i>	Total <i>RMB'000</i>
	2001				
	Leasehold improvements <i>RMB'000</i>	Computer and related equipment <i>RMB'000</i>	Other office equipment <i>RMB'000</i>		
<b>Cost</b>					
Beginning of year	—	6,855	1,555	8,410	4,394
Additions	2,246	1,992	1,294	5,532	4,259
Disposals	—	—	—	—	(243)
End of year	2,246	8,847	2,849	13,942	8,410
<b>Accumulated depreciation</b>					
Beginning of year	—	1,965	621	2,586	1,026
Charge for the year	355	1,458	367	2,180	1,586
Disposals	—	—	—	—	(26)
End of year	355	3,423	988	4,766	2,586
<b>Net book value</b>					
End of year	1,891	5,424	1,861	9,176	5,824
Beginning of year	—	4,890	934	5,824	3,368

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 3. PROPERTY, PLANT AND EQUIPMENT, NET (Cont'd)

	Company 2001			2000
	Computer and related equipment <i>RMB'000</i>	Other office equipment <i>RMB'000</i>	Total <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>				
Beginning of year	20	—	20	—
Additions	31	—	31	20
End of year	51	—	51	20
<b>Accumulated depreciation</b>				
Beginning of year	4	—	4	—
Charge for the year	5	—	5	4
End of year	9	—	9	4
<b>Net book value</b>				
End of year	42	—	42	16
Beginning of year	16	—	16	—

The directors are of the opinion that there is no indication of impairment on the carrying value of property, plant and equipment as of 31 December 2001.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

## 4. INTANGIBLE ASSETS

	Group			2000
	2001			
	Development costs <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>	
<b>Cost</b>				
Beginning of year	—	—	—	—
Addition	<u>2,509</u>	<u>230</u>	<u>2,739</u>	<u>—</u>
End of year	<u>2,509</u>	<u>230</u>	<u>2,739</u>	<u>—</u>
<b>Accumulated amortisation</b>				
Beginning of year	—	—	—	—
Amortisation for the year	<u>—</u>	<u>11</u>	<u>11</u>	<u>—</u>
End of year	<u>—</u>	<u>11</u>	<u>11</u>	<u>—</u>
<b>Net book value</b>				
End of year	<u><u>2,509</u></u>	<u><u>219</u></u>	<u><u>2,728</u></u>	<u><u>—</u></u>
Beginning of year	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

- (a) Development costs capitalised include expenses incurred by the Group in the development of certain new software products. During the year ended 31 December 2001, total expenditures on research and development were approximately RMB 12,198,000 of which approximately RMB 2,509,000 was capitalised. The Group was able to demonstrate that the new products met the criteria for recognition as an intangible asset. As the development of the new products is still in progress, amortisation has not been commenced.
- (b) Software represent certain computer software purchased from Hangzhou Singlee Electronics Company Limited at a consideration of RMB 230,000 (See Note 25(e)).

The directors are of the opinion that the underlying value of the intangible assets was not less than their carrying value as of 31 December 2001.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 5. INVESTMENT IN SUBSIDIARIES

In the Company’s balance sheet, investment in subsidiaries comprised the following:

	<b>2001</b>
	<b>RMB’000</b>
Share of net identifiable assets of subsidiaries	<b>26,298</b>
Amounts due from subsidiaries	<b>25,570</b>
	<hr/>
	<b>51,868</b>
	<hr/> <hr/>

The amounts due from subsidiaries were unsecured, interest free and repayable on demand.

The directors are of the opinion that the underlying value of the subsidiaries was not less than their carrying value as of 31 December 2001.

As of 31 December 2001, the Company had interests in the following subsidiaries:

Name	Date and place of incorporation/ establishment	Percentage of equity Interest attributable to the Company		Registered and fully paid-up capital	Principal activities
		Direct	Indirect		
Singlee BVI	3 September 1999 British Virgin Islands	100%	—	US\$715	Investment holding
Hangzhou Singlee Software Company Limited (“Singlee Software”)	27 May 1999 Mainland China	—	100%	US\$500,000	Development, manufacture and sale of software products, sale of related hardware products and provision of software-related technical services
Hangzhou Singlee Technology Company Limited (“Singlee Technology”)	16 October 2001 Mainland China	—	100%	US\$1,200,000	Same as above

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 6. INVENTORIES

	Group	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods, at cost	<u>7,513</u>	<u>8,788</u>

Inventories are mainly point-of-sale machines for sale. As of 31 December 2001, no inventory was stated at net realisable value (2000: Nil).

## 7. TRADE RECEIVABLES, NET

The aging analysis of trade receivables is as follows:

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	30,785	20,337	1,526	—
Over 90 days but within 180 days	981	609	—	—
Over 180 days but within 365 days	5,080	2,395	—	—
Above 365 days	3,160	2,419	—	—
	<u>40,006</u>	25,760	1,526	—
Less: Provision for doubtful receivables	(1,287)	(1,950)	—	—
	<u>38,719</u>	<u>23,810</u>	<u>1,526</u>	<u>—</u>

The normal credit period granted by the Group is on average 30 to 90 days from the date of invoice.

## 8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Business tax recoverable	3,740	3,159	—	—
Value-added tax (“VAT”) recoverable ( <i>Note 16</i> )	4,772	—	—	—
Deferred share issuance expenditures	—	2,918	—	2,918
Advance to employees	495	1,696	—	—
Deposits and others	4,269	4,318	254	—
	<u>13,276</u>	<u>12,091</u>	<u>254</u>	<u>2,918</u>

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 9. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents				
— denominated in HK\$	33,716	2	33,701	—
— denominated in US\$	7,766	1,052	9	—
— denominated in RMB	18,611	5,460	—	—
	<u>60,093</u>	<u>6,514</u>	<u>33,710</u>	<u>—</u>

As of 31 December 2001, bank deposits amounting to approximately US\$ 136,000 (equivalent to RMB 1,125,000) and HK\$1,400,000 (equivalent to RMB 1,484,000) were pledged as security for certain banking facilities (see Notes 14 and 15).

## 10. SHARE CAPITAL

	Number of shares	Nominal value HK\$	Nominal value RMB
Authorised (ordinary shares of HK\$0.01 each):			
Upon incorporation (a)	10,000,000	100,000	106,000
Subsequent increase (b)	9,990,000,000	99,900,000	105,894,000
As at 31 December 2001	<u>10,000,000,000</u>	<u>100,000,000</u>	<u>106,000,000</u>
Issued and fully paid (ordinary shares of HK\$0.01 each):			
Issue of shares upon incorporation (a)	10,000,000	100,000	106,000
As at 31 December 2000	<u>10,000,000</u>	<u>100,000</u>	<u>106,000</u>
Issue of shares arising from the Reorganisation (c)	2,000,000	20,000	21,200
Issue of shares through placing (d)	150,000,000	1,500,000	1,590,000
Capitalisation of share premium (e)	438,000,000	4,380,000	4,642,800
Issue of shares to sponsor (f)	3,000,000	30,000	31,800
As at 31 December 2001	<u>603,000,000</u>	<u>6,030,000</u>	<u>6,391,800</u>

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 10. SHARE CAPITAL (Cont'd)

*Notes:*

- (a) On 27 October 2000, the Company was incorporated with an authorised share capital of HK\$100,000, divided into 10,000,000 shares of HK\$0.01 each. On 23 November 2000, 7,343,000 and 2,657,000 shares were issued and credited as nil paid to Goldcorp and Red Apple Limited respectively.
- (b) Pursuant to a shareholders' resolution passed on 27 August 2001, the authorised share capital was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 9,990,000,000 shares of HK\$0.01 each ranking pari passu with the then existing shares in all respects.
- (c) On 27 August 2001 and pursuant to the Reorganisation referred to in Note 1, the Company issued 2,000,000 shares to Goldcorp in consideration for the 100% equity interest in Singlee BVI. The excess of the net asset value of Singlee BVI over the nominal value of shares issued of approximately RMB6,653,000 is accounted for as capital reserve by the Company.
- (d) On 4 September 2001, 150,000,000 shares of HK\$0.01 each were issued at HK\$0.48 per share through placing (the “New Issue”), resulting in total cash proceeds of approximately RMB76,320,000. After deducting share issuance expenses of approximately RMB10,828,000, the net cash proceeds were approximately RMB65,492,000.
- (e) Immediately after the New Issue, share premium of HK\$4,380,000 was capitalised by issuance of 438,000,000 shares of HK\$0.01 each on pro-rata basis to the Company's shareholders before the New Issue.
- (f) Immediately after the New Issue, 3,000,000 shares of HK\$0.01 each were issued for nil consideration to the sponsor in relation to the New Issue.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 11. RESERVES

Movements of reserves were:

	2001					2000	
	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Revenue reserve <i>RMB'000</i>	Cumulative translation adjustments <i>RMB'000</i>	Retained profits (Accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Group</b>							
Balance as at beginning of year	—	3,930	3,104	—	4,666	11,700	6,844
Buyout of minority interests by majority shareholders	—	(480)	—	—	—	(480)	3,930
Premium on issue of ordinary shares, net of issues at nil consideration <i>(Note 10 (a), (d), (f))</i>	74,593	—	—	—	—	74,593	—
Share issuance expenses <i>(Note 10 (d))</i>	(10,828)	—	—	—	—	(10,828)	—
Capitalisation of share premium <i>(Note 10 (e))</i>	(4,642)	—	—	—	—	(4,642)	—
Effect of Reorganisation <i>(Note 11 (a))</i>	—	(15)	—	—	—	(15)	—
Translation adjustments	—	—	—	4	—	4	—
Net profit for the year	—	—	—	—	10,460	10,460	10,826
Profit appropriation to reserve fund	—	—	1,350	—	(1,350)	—	—
Dividends	—	—	—	—	(1,500)	(1,500)	(9,900)
Balance as at end of year	<u>59,123</u>	<u>3,435</u>	<u>4,454</u>	<u>4</u>	<u>12,276</u>	<u>79,292</u>	<u>11,700</u>

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

## 11. RESERVES (Cont'd)

	2001						2000
	Share premium RMB'000	Capital reserve RMB'000	Revenue reserve RMB'000	Cumulative translation adjustments RMB'000	Retained profits (Accumulated losses) RMB'000	Total RMB'000	Total RMB'000
<b>Company</b>							
Balance as at beginning of year	—	—	—	—	(2,741)	(2,741)	—
Premium on issue of ordinary shares, net of issues at nil consideration (Note 10 (a), (d), (f))	74,593	—	—	—	—	74,593	—
Share issuance expenses (Note 10 (d))	(10,828)	—	—	—	—	(10,828)	—
Capitalisation of share premium (Note 10 (e))	(4,642)	—	—	—	—	(4,642)	—
Effect of Reorganisation (Note 10 (c))	—	6,653	—	—	—	6,653	—
Net profit for the year	—	—	—	—	16,203	16,203	(2,741)
Balance as at end of year	<u>59,123</u>	<u>6,653</u>	<u>—</u>	<u>—</u>	<u>13,462</u>	<u>79,238</u>	<u>(2,741)</u>

- (a) This represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of Singlee BVI at 27 August 2001, the date of the Reorganisation (See Note 10(c)).
- (b) Mainland China laws and regulations require wholly foreign-owned enterprises to provide for certain statutory funds, namely, reserve fund and staff and worker's bonus and welfare fund, which are appropriated from net profit after tax (based on the local statutory accounts of the Company's subsidiaries in the Mainland China) but before dividend distribution. The subsidiaries are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of their respective registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the directors of such subsidiaries. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of the employees of the individual subsidiary, and assets acquired through this fund shall not be taken as the Group's assets. As of 31 December 2001, the reserve funds amounted to approximately RMB 4,454,000 (2000: RMB 3,104,000). Under IFRS, appropriations to the staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as a liability of the Group.

## 11. RESERVES (Cont'd)

Under the Companies Act 1981 of Bermuda (“Companies Act”), share premium and capital reserve are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and capital reserve if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

As at 31 December 2001, the Company’s reserves available for distribution to shareholders amounted to approximately RMB 79,238,000, computed in accordance with the Companies Acts and the Company’s articles of association. This includes the Company’s share premium and capital reserve of approximately RMB 59,123,000 and RMB 6,653,000 respectively, plus retained profits of approximately RMB 13,462,000, which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

## 12. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Within 90 days	<b>10,310</b>	4,544	<b>15</b>	—
Over 90 days but within 180 days	<b>283</b>	4,388	—	—
Over 180 days but within 365 days	<b>90</b>	300	—	—
Above 365 days	<b>497</b>	662	—	—
	<hr/> <b>11,180</b> <hr/>	<hr/> 9,894 <hr/>	<hr/> <b>15</b> <hr/>	<hr/> — <hr/>

## 13. CUSTOMERS’ DEPOSITS

Customers’ deposits represented cash received from customers before software was installed and the hardware was delivered.

## 14. BILLS PAYABLE

As of 31 December 2001, the Group’s bills payable was secured by the Group’s bank deposits (see Note 9) of approximately HK\$1,400,000 (equivalent to RMB1,484,000).

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

## 15. SHORT-TERM BORROWINGS

As of 31 December 2001, the Group's short-term bank loans amounted to RMB11,000,000, of which RMB1,000,000 was secured by the Group's bank deposits (see Note 9) of US\$136,000 (equivalent to RMB1,125,000). Short-term bank loans bore interest ranging from 5.02% to 6.14% (2000: from 5.30% to 5.85%) per annum.

## 16. TAX PAYABLE

	<b>Group</b>	
	<b>2001</b>	2000
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
VAT payable	<b>11,091</b>	7,766
Others	<b>1,021</b>	58
	<hr/> <b>12,112</b> <hr/>	<hr/> 7,824 <hr/>

According to Mainland China tax regulations, Singlee Software and Singlee Technology are subject to VAT on its sales in Mainland China, which is levied at the general rate of 17% on the gross price upon sales of goods. Input VAT paid on purchase of raw materials, semi-finished products, etc. is used to offset the VAT payable on sales to determine the net VAT payable.

Pursuant to document Caishui [2000] No. 25 issued by State Tax Bureau, effective from 24 June 2000, for companies engaged in the development and distribution of software, their revenues from sale of software are subject to VAT with applicable tax rate of 17% and are entitled to refund of any actual tax paid exceeding 3% of the revenues. The VAT refund of the Group has been accounted for as other operating income (see Note 19).

## 17. DEFERRED INCOME

The amount represented revenues on maintenance services which had not yet been recognized as income.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 18. REVENUE

	Group	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of software	34,826	35,609
Sale of hardware	30,360	45,825
Revenue from maintenance services	5,230	5,594
	<u>70,416</u>	<u>87,028</u>

All sales were derived in the Mainland China.

## 19. OTHER OPERATING INCOME

	Group	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income from bank deposits	367	—
VAT refund ( <i>See Note 16</i> )	5,985	—
Government subsidies	742	609
	<u>7,094</u>	<u>609</u>

## 20. FINANCE COSTS

	Group	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly repayable within 5 years	1,196	741
Others	—	30
	<u>1,196</u>	<u>771</u>

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 21. PROFIT BEFORE TAX

Profit before tax was determined after crediting and charging the following:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>RMB'000</b>	RMB'000
After crediting:		
Written back of provision for doubtful receivables	<b>663</b>	—
	<hr/> <hr/>	<hr/> <hr/>
After charging:		
Employment costs		
— Salaries and wages	<b>10,832</b>	9,343
— Provision for bonus and welfare fund	<b>1,253</b>	1,063
— Contribution to retirement schemes ( <i>see Note 27</i> )	<b>942</b>	131
	<hr/> <b>13,027</b>	<hr/> 10,537
Cost of inventories	<b>21,749</b>	30,870
Research and development costs expenditures	<b>9,689</b>	8,893
Amortisation of intangible assets	<b>11</b>	—
Depreciation of property, plant and equipment	<b>2,180</b>	1,586
Provision for doubtful receivables	—	1,250
Operating lease rentals	<b>3,101</b>	2,451
Loss on disposal of property, plant and equipment	—	217
Auditors' remuneration	<b>382</b>	15
	<hr/> <hr/>	<hr/> <hr/>

## 22. INCOME TAX EXPENSE

	<b>Group</b>	
	<b>2001</b>	2000
	<b>RMB'000</b>	RMB'000
Mainland China enterprise income tax (c)	<b>779</b>	—
	<hr/> <hr/>	<hr/> <hr/>

### (a) Overseas income tax

The Company is incorporated in Bermuda and is exempt from taxation in Bermuda until 28 March 2016. The Company's subsidiary established in the BVI is incorporated under the International Business Companies Acts of the BVI and, accordingly, is exempt from payment of BVI income taxes.

**22. INCOME TAX EXPENSE (Cont'd)****(b) Hong Kong profits tax**

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

**(c) Mainland China enterprise income tax**

New and high technology enterprises that incorporated in the Advanced Technology Industry Development Area in Hangzhou City are entitled to reduced income tax of 15%. In addition, foreign investment enterprise of production nature are entitled to full exemption from income tax for two years with effect from its first profitable year after offsetting prior year's losses and a 50% reduction in income tax for the following three years.

The reconciliation of statutory tax rate to effective tax rate is as follows:

	2001		2000	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Accounting profit before taxation	<u>10,759</u>	<u>100%</u>	<u>14,756</u>	<u>100%</u>
Tax at the statutory tax rate	1,614	15%	2,213	15%
— Tax benefit arising from tax regulations applicable to foreign enterprises in the Mainland China	(807)	(7.5%)	(2,213)	(15%)
— Tax effect of income that are not taxable in determining taxable profit	<u>(28)</u>	<u>(0.3%)</u>	<u>—</u>	<u>—</u>
Tax expense	<u>779</u>	<u>7.2%</u>	<u>—</u>	<u>—</u>

There was no significant unprovided deferred taxation for the year ended 31 December 2001 (2000: Nil).

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

## 23. DIVIDENDS

	<b>2001</b>	2000
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Dividends declared and paid to the then owners/ shareholders of subsidiaries	<b><u>1,500</u></b>	<u>9,900</u>

Subsequent to 31 December 2001, the Company proposed final dividends, at HK\$0.005 per share, totalling HK\$3,015,000 (equivalent to RMB 3,195,900).

## 24. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the combined net profit for the year attributable to shareholders of approximately RMB10,460,000 (2000: RMB10,826,000) divided by the weighted average number of ordinary shares outstanding during the year of 501,360,000 shares (2000: 453,000,000 shares). The weighted average number of shares outstanding for 2000 is calculated assuming all ordinary shares outstanding at 31 December 2001, except for the 150,000,000 ordinary shares issued in 2001 through placing, were outstanding throughout 2000. No diluted earnings per share was presented as there was no dilutive potential ordinary shares issued for the year.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 25. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) The Group had the following significant transactions with a related company, Hangzhou Singlee Electronics Company Limited (“Singlee Electronics”), for the year ended 31 December 2001:

	<b>Group</b>	
	<b>2001</b>	2000
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Discontinuing transactions:		
Rental paid to Singlee Electronics for lease of office premises	<u><b>193</b></u>	<u>300</u>
Continuing transactions:		
Rental paid to Singlee Electronics for lease of office premises	<b>97</b>	—
Rental paid to Singlee Electronics for lease of motor vehicles	<u><b>239</b></u>	<u>371</u>
Total	<u><b>336</b></u>	<u>371</u>

*Notes:*

- (i) Singlee Electronics is a sino-foreign equity joint venture registered in Mainland China. It is indirectly owned by Mr. Hung and Ms. Li.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 25. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Details of amount due from a director are:

	<b>Group</b>		<b>Maximum balance outstanding during the year ended 31 December 2001</b>
	<b>2001</b>	2000	<b>RMB'000</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Mr. Duan Patrick	—	455	455

This represented a housing loan to Mr. Duan Patrick, a director of the Company, which was unsecured and non-interest bearing and had been fully settled as of 31 December 2001. Had interest been charged on the outstanding balance during the year ended 31 December 2001 based on the interest rate earned by the Group on saving deposits of approximately 1% per annum, the Group would have received interest of approximately RMB 3,000 for the year then ended.

(c) Details of amount due from related parties are:

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Goldcorp (i)	<b>21</b>	—	<b>21</b>	—
Singlee Electronics (a) (i)	—	4,809	—	—
Hong Kong Sing Lee Trading Company (“Singlee Trading”) (ii)	—	193	—	—
	<b>21</b>	<b>5,002</b>	<b>21</b>	—

Notes:

- (i) Goldcorp is the holding company of the Company and is directly owned by Mr. Hung and indirectly held by Ms. Li.
- (ii) Singlee Trading is directly owned by Mr. Hung and Ms. Li.

Amount due from related parties are unsecured, non-interest bearing and without pre-determined repayment terms.

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 25. RELATED PARTY TRANSACTIONS (Cont'd)

(d) Details of amount due to related parties are:

	Group		Company	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Goldcorp (c) (i)	—	5,569	—	5,569
Sing Lee Electronics Technology (Group) Limited (“Singlee Technology Group”) (i)	—	1,036	—	—
	—	6,605	—	5,569

Note:

- (i) Singlee Technology Group is indirectly held by Mr. Hung and Ms. Li.
- (e) Pursuant to an agreement on 18 March 2001, Singlee Electronics sold certain computer software to the Group at a consideration of RMB230,000.
- (f) During the year ended 31 December 2001, the Group borrowed bank loans of RMB 15,300,000 and RMB 6,000,000 that were guaranteed by Singlee Electronics and by a company 10% indirectly owned by Mr. Hung and Ms Li respectively. All the aforesaid bank loans were repaid before 31 December 2001. Hence, the guarantees provided by the related parties had been released before 31 December 2001.

In the opinion of the directors of the Company, except for (b) and (c) above, the above related party transactions were conducted under normal commercial terms in the usual course of business.

## 26. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS

(i) Details of the remuneration paid to directors of the Company were as follows:

	Group	
	2001	2000
	RMB'000	RMB'000
Fees	51	—
Salaries, allowances and benefits in kind	1,795	1,133
Retirement benefits	35	2
Bonus	—	—
Others	—	4
	1,881	1,139

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

## 26. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

- (i) Details of the remuneration paid to directors of the Company were as follows: (Cont'd)

Analysis of emoluments of the directors (4 of them are executive directors) by number of individuals and emolument range was as follows:

	<b>2001</b>	2000
	<b>Number</b>	Number
Nil - RMB 1,060,000 (equivalent to HK\$1,000,000)	<b>5</b>	3
RMB 1,060,000 - RMB 1,590,000 (equivalent to HK\$1,000,000 - HK\$1,500,000)	<b>1</b>	1
	<b>6</b>	4

The six directors received individual emoluments of approximately RMB1,088,000, RMB323,000, RMB 322,000, RMB 96,000, RMB 25,000 and RMB 25,000 for the year ended 31 December 2001 (2000: RMB 1,014,000, RMB 125,000, RMB nil, RMB nil, RMB nil and RMB nil respectively).

The 4 executive directors waived emoluments of approximately RMB102,000 during the year ended 31 December 2001 (2000: Nil).

- (ii) Details of the emoluments of the five highest paid individuals (including directors and employees) in the Group were as follows:

	<b>2001</b>	2000
	<b>RMB '000</b>	RMB '000
Fees	—	—
Salaries, allowances and benefits in kind	<b>2,525</b>	1,801
Retirement benefits	<b>54</b>	211
Bonus	—	—
Others	—	9
	<b>2,579</b>	2,021
	<b>Number</b>	Number
Number of directors	<b>3</b>	2
Number of employees	<b>2</b>	3
	<b>5</b>	5

**26. DIRECTORS AND SENIOR EXECUTIVES’ EMOLUMENTS** (Cont’d)

- (ii) Details of the emoluments of the five highest paid individuals (including directors and employees) in the Group were as follows: (Cont’d)

Analysis of emoluments of the five highest paid individuals by number of individuals and emolument range was as follows:

	2001 Number	2000 Number
Nil - RMB 1,060,000 (equivalent to HK\$1,000,000)	4	4
RMB 1,060,000 - RMB 1,590,000 (equivalent to HK\$1,000,000 - HK\$1,500,000)	1	1
	<u>5</u>	<u>5</u>

During the year, no emolument was paid to the five highest paid individuals (including directors and employees) or any other directors as an inducement to join or upon joining the Group or as compensation for loss of office.

**27. RETIREMENT BENEFITS**

The Company has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme, a defined contribution scheme managed by an independent trustee. Each of the Company and its employees made monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund legislation. Both the Company’s and the employees’ contributions are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

Singlee Software and Singlee Technology participate in defined contribution retirement schemes organized by the relevant local government authorities in Mainland China. Each employee covered by these schemes is entitled, after retirement, to a pension payment equal to the basic salary of the employees as of their retirement dates. Singlee Software and Singlee Technology are required to make monthly contributions to the retirement scheme, up to the time of retirement of the eligible employees, at 23% of their basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

As of 31 December 2001, the Group had no significant obligation apart from the contribution as stated above.

Details of the pension contributions made by the Group, which have been dealt with in the combined results of operations of the Group for the current year, were as follows:

	2001 RMB’000	2000 RMB’000
Contributions to retirement schemes	<u>1,342</u>	<u>131</u>

# Notes to the Financial Statements

31 December 2001

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

## 28. NOTES TO THE COMBINED STATEMENT OF CASH FLOWS

(a) Reconciliation from profit before tax to cash provided by operations:

	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	10,759	14,756
Adjustments for:		
(Written back of) provision for doubtful receivables	(663)	1,250
Loss on disposal of property, plant and equipment	—	217
Depreciation of property, plant and equipment	2,180	1,586
Amortisation of intangible assets	11	—
Interest expense	1,196	772
Interest income	(367)	—
	<hr/>	<hr/>
Operating profit before working capital changes	13,116	18,581
Decrease (increase) in inventories	1,275	(3,321)
Increase in trade receivables	(14,246)	(11,833)
Increase in deposits, prepayments and other receivables	(1,185)	(9,219)
Decrease in amount due from a director	455	—
Decrease (increase) in amounts due from related parties	4,981	(5,455)
Increase in trade payable	1,286	664
Increase (decrease) in accruals and other payables	418	(1,301)
(Decrease) increase in customers' deposits	(5,566)	10,098
Decrease in amounts due to related parties	(6,702)	(1,423)
Increase in tax payable	4,288	4,997
Decrease in deferred income	(134)	(368)
	<hr/>	<hr/>
Cash (used in) provided by operations	<b>(2,014)</b>	<b>1,420</b>
	<hr/> <hr/>	<hr/> <hr/>

(b) Analysis of the balances of cash and cash equivalents

	2001 <i>RMB '000</i>	2000 <i>RMB '000</i>
Cash and bank deposits	60,093	6,514
Bills payable	(1,476)	—
	<hr/>	<hr/>
	<b>58,617</b>	<b>6,514</b>
	<hr/> <hr/>	<hr/> <hr/>

## 29. CONTINGENT LIABILITIES

As of 31 December 2001, the Group had no significant contingent liabilities.

## 30. SEGMENT INFORMATION

The Group conducts its business in Mainland China within one business segment – the business of development, manufacture and sale of software products, sale of related hardware products and provision of software-related technical services. The Group also operates within one geographical segment because its revenues are primarily generated in Mainland China and its assets are primarily located in Mainland China. Accordingly, no segment information is presented.

## 31. COMMITMENTS

### (a) Capital commitments

As of 31 December 2001, the Group did not have any significant authorised or contracted capital commitments.

### (b) Operating lease commitments

As of 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings and vehicles as follows:

	<b>2001</b>	<b>2000</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Repayable:		
— not later than one year	<b>1,416</b>	2,446
— later than one year and not later than five years	<b>2,682</b>	1,797
	<b>4,098</b>	4,243
	<b>4,098</b>	4,243

## 32. FINANCIAL INSTRUMENTS

The carrying amounts of the Group’s cash and cash equivalents, trade receivables and payable, other receivable and payable, borrowings and balances with related parties approximate their fair values because of the short maturity of these instruments.

The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

# Notes to the Financial Statements

31 December 2001

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## 33. CONCENTRATION OF RISKS

### (a) Credit risk

The carrying amount of cash and cash equivalents, trade receivables, other receivables and due from related parties, represented the Group’s maximum exposure to credit risk in relation to financial assets.

The majority of the Group’s trade receivables related to sale of software and hardware to and maintenance service income from third party customers. The Group performs ongoing credit evaluations of its customers’ financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts. The management of the Group consider that, under the Group’s accounting policy for trade receivable, the year end provision for doubtful debts is adequate and not excessive, and actual losses have been within management’s expectation. No single customer accounted for greater than 10% of total revenues during the year.

No other financial assets carry a significant exposure to credit risk.

### (b) Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in RMB, which is not freely convertible into foreign currencies. On 1 January 1994, Mainland China government abolished the dual rate system and introduced a single rate of exchange as quoted by the People’s Bank of China. However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People’s Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People’s Bank of China. Approval of foreign currency payments by the People’s Bank of China or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

### (c) Interest rate risk

The interest rates and terms of repayment of short-term bank loans of the Group are disclosed in Note 15.

### (d) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities.