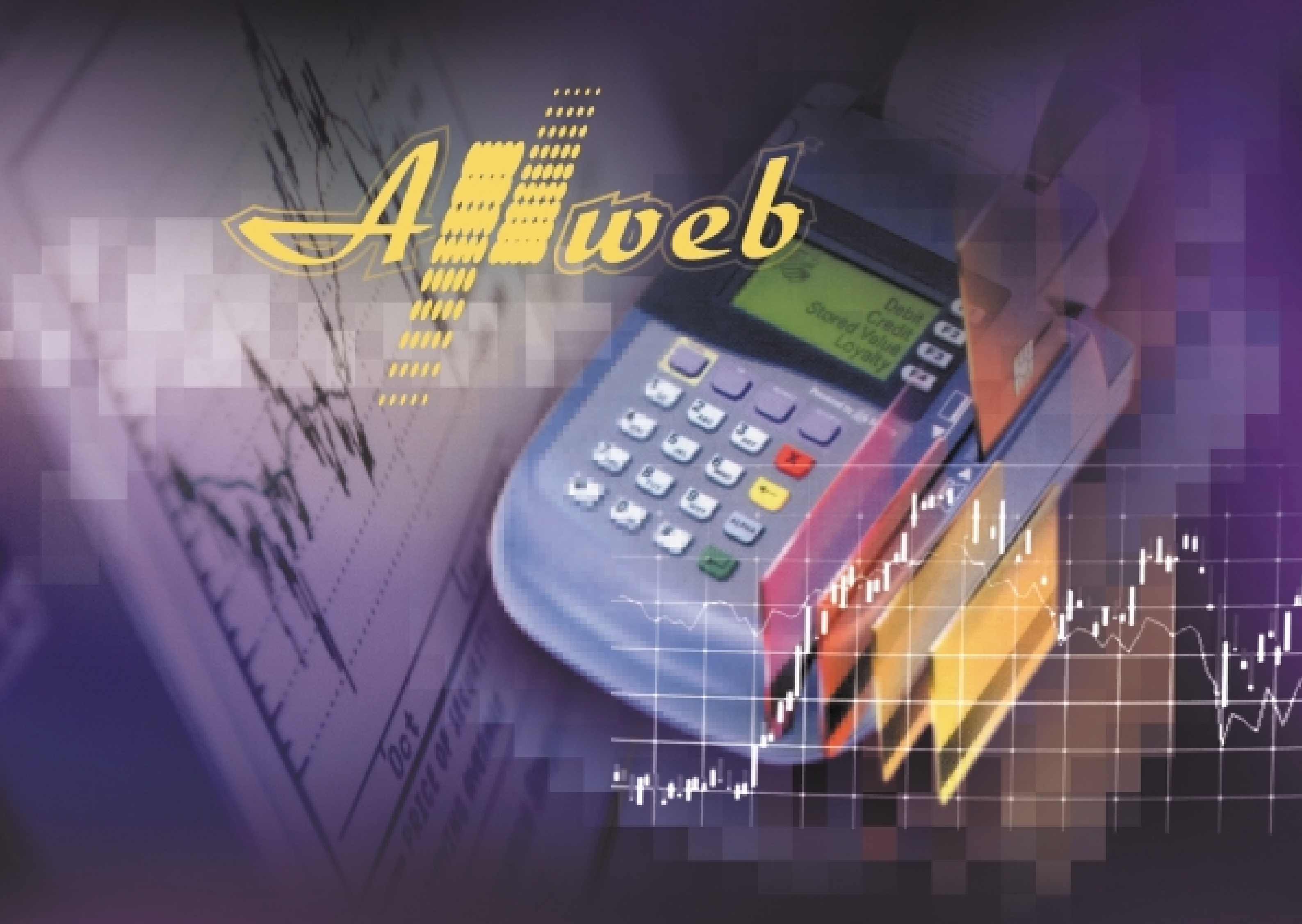
SING LEE SOFTWARE (GROUP) LIMITED

新利軟件(集團)股份有限公司

(Incorporated in Bermuda with limited liability)



Annual Report 2003

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This annual report, for which the directors of Sing Lee Software (Group) Limited (the "Company") collectively and individually accept full 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 the Company. 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 *(Chairman)*
Cui Jian
Duan Patrick (resigned on 19 March 2003)
Li Kei Ling (resigned on 6 January 2004)
Xu Shu Yi (appointed on 6 January 2004)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Pan Yun He
Wang Gui Guo (resigned on 22 December 2003)
Pao Ping Wing(appointed on 22 December 2003)

COMPANY SECRETARY
Tang Ngai Man, CPA (Aust), AHKSA
(resigned on 6 December 2003)
Lau Ying Kit, AHKSA
(appointed on 6 December 2003)

QUALIFIED ACCOUNTANT
Tang Ngai Man, CPA (Aust), AHKSA
(resigned on 6 December 2003)
Lau Ying Kit, AHKSA
(appointed on 6 December 2003)

COMPLIANCE OFFICER
Hung Yung Lai

AUTHORISED REPRESENTATIVES
Hung Yung Lai

AUDIT COMMITTEE
Pao Ping Wing *(Chairman)*
Pan Yun He

AUDITORS
Charles Chan, Ip & Fung CPA Ltd.
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
Bank of China, Hangzhou Branch
Industrial and Commercial Bank of China

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
Ground Floor, BEA Harbour View Center
56 Gloucester Road
Wanchai
Hong Kong

GEM STOCK CODE
8076

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 2003 Annual Report of the Group.

BUSINESS REVIEW AND ANALYSIS

The Company incurred further loss during the year, which was mainly due to the continued unfavourable situation in the securities markets in the PRC and price competition between the Group and other IT enterprises, large users of successfully developed new products delayed in signing contracts leading to increase in costs, large scale outbreak of SARS in the PRC, resulting in the continued economic slow-down and increase in unstable factors.

Securities Business

During the past year, in view of the introduction of the floating rate commission system and the PRC becoming hampered by the outbreak of SARS, profit as well as income were subject to direct blow upon successive unfavourable incidents. Subject to the influence of numerous adverse factors, the results of the entire securities industry in the PRC remained gloomy and depressed during 2003. Some small securities dealers even facing with survival crisis. Loss incurred by securities dealers was an uncontested fact. In order to survive, the securities industry in the PRC underwent a radical change. More emphasis were placed on cost control. More and more securities dealers, including the existing customers and potential customers, tightened their IT budgets and investments in order to sustain their operations. Securities dealers continued to postpone their purchases for the ALLWEB, a regional centralised system, new generation securities business platform which the Group invested heavily on its development, causing the Group to incur substantial losses as result of the continued delay in the returns period in respect of the investments in the securities industry products.

Price competition with competitors in respect of the sales on the Group's securities industry products also brought about tremendous distress and resulted in losses.

Banking Business

Although the Group's electronic payment business and country-wide POS Sharing platform continued to maintain its leading position, however, in recapitulating the results of banking business products in the past decade, there existed three major weaknesses requiring immediate adjustments.

The first was that the non-core business and peripheral business of the Group's banking software business, such as Singlee short message platform, bank administrative fees collecting system and Singlee bank short message service system, can only bring minimal gross profits to the Group.

The second was the problem of customer services. With the PRC gradually blended with the rest of the world, customers' requests for service were also increasing. In order to strengthen with the Group's competitiveness and the advantage of maintaining good and long-term relationships with customers, the headquarter of the Group have to strengthen staff training, to strengthen their skills with respect to sales and higher quality customer service.

The third was that the lucrative margin for the electronic payment sector was over. Under the continuous emergence of competitors, the outbreak of price competition resulted in the gross profit margin to drop for more than 30% in 2002 to below 20% in 2003.

Due to the above three reasons, the gross profit margin of the Group's banking business dropped drastically, which also contributed to the loss in the banking business.

FUTURE OUTLOOK

Due to the above reasons, the Board and the management of the Company conducted intensive market research and detailed investigations to identify measures to solve the problems. It was decided that we have to further leverage on our own advantages, overcome the weakness, and dedicate to explore more resources. At the same time, we will exercise tight control over resources and define the direction for the development of the Group's banking and securities business to be: application software targeting at the core business of banks, management software targeting at different business segments, and new business models and value-added services for hardware products. We must introduce well qualified personnel, promote the Group's culture in four aspects through the segmentation in organisation structure, standardization in working style, systematic management and all staff attaining vocational skills. The formulation of rules and system for the Company and strict compliance with the laws and regulations, maintain a high standard of ethics, strictly implementing incentive mechanism of rewards and punishments and tight control over costs.

On the basis of the integrated software products and the Group's projects, upon in-depth study, the Group has identified new profit centres and room for margins, profits in the financial industry in the PRC, including the OEM-based core management business, such as the balance sheet management and management accounting system, fund management system and international settlement system, foreign exchange information system, personal financial system and comprehensive business system.

For this purpose, the Group has introduced Mr. Wang Xi and Mr. Wang Yu Min who are highly qualified persons. These two persons are experienced and have in-depth knowledge and extensive connections in the core business development and system product integration in the banking software industry and financial industry in the PRC respectively. At the same time, the Group has introduced international software providers such as IPS-SENDEO and MISYS to form strategic cooperative partnerships with the Group, and to strengthen the Group's products.

At the same time, the Group has integrated internally the centralised management system covering market, engineering, sales, thereby increasing the sales of the above new products, enhancing the progress of the project works, and attained the effect of further reducing costs. From 2002 to 2003, the Group has completed developments in the major products which the Group has made considerable investments, the "Country-wide Banking Card POS Sharing System" and "New Generation Securities Business Platform". Cost for R&D in 2004 will be reduced significantly. At the same time, the Group has further strengthen the centralised management and motion control mechanism on the Group's three major systems, finance, business and market, so as to ensure the realisation of the various targets of the Group. The Group is confident to enhance the overall gross profit of the Group considerably in 2004.

In order to strengthen cash flow and logistics, the Group will also set up effective measures and mechanisms to fulfill the Group's requirements.

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 thanks to the customers, cooperation partners, suppliers and bankers for their confidence and trust in the Group.

Hung Yung Lai
Chairman

30 March 2004

FINANCIAL REVIEW

The Group is principally engaged in the development and sale of information and network technologies and services to the financial industry in the People's Republic of China (the "PRC").

For the year ended 31st December 2003 ("the financial year"), the Group recorded a net loss of RMB31,667,000, an increase of 207% over that in the previous year. The main reasons attributing to the above loss were: the price competition with other IT enterprises, the cost increase in the R&D process, the large scale outbreak of SARS in the PRC resulting in the continued overall economic slow-down. With the above reasons, provisions for the Group's doubtful and bad debts for the year amounted to approximately RMB8.6 millions.

Due to the gloomy situation in the Group's securities business and the securities industry in the PRC, causing more deterioration to the operating situation of broking companies in the PRC, and some securities companies even have to wind up or merged all of which have brought significant adverse impact to the Group, from the product sales to accounts receivable in respect of the products provided to them from 2001 to 2002.

Similarly, products sales in banking business in last year also brought forward a number of reasons causing losses, being: drop in the gross profit of the Group's banking software business which were basically non-core business, customers requesting for enhancement of services, electronic payment hardware products, drastic drop in prices due to keen market competitions.

With regard to the above underlying factors, the Group recorded a consolidated turnover of approximately RMB37,848,000 for the financial year, representing a drop of approximately 40% compared to that of last year (2002: RMB62,853,000). Turnover of the Group comprises of:

	Turnover	
	2003	2002
	RMB'000	*RMB'000*
Sales of software	**18,396**	22,318
Sales of hardware	**15,622**	36,181
Maintenance income	**3,830**	4,354
	37,848	62,853

The main reasons for the gross loss was due to drop in the sales of pure software business insufficient to compensate the amortisation of past R&D expenses, salaries. Sales of Hangzhou Singlee Software Company Limited alone shrank by approximately 84% compared with that in 2002.

The Group has achieved certain results in the further control on operating costs, and compared with 2002, distribution costs and financial costs in 2003 also reduced by approximately 12% and 22% respectively.

Compared with 2002, the increase in management expenses in 2003 by approximately 39% was due to the provision for doubtful and bad debts of approximately RMB8.6 millions.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING RATIO

As at 31 December 2003, the Group had no bank borrowings (2002: RMB8.0 million), all represented short term-bank loans repayable within one year.

No interest was capitalized by the Group during the year (2002: nil).

As at 31 December 2003, the Group held cash and cash equivalents denominated in RMB, US dollars and HK dollars, amounted to approximately RMB13.671 million.

The gearing ratio of the Group, based on total liabilities over total assets, as at 31 December 2003 was approximately 50% (2002: 39%).

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies, or significant investments during the year under review.

SEGMENTAL INFORMATION

Saved as disclosed on note 11 of the notes to the financal statements, no segmental information is presented for the Group as the Group conducts its business within one geographical and business segment.

EMPLOYEE INFORMATION

As at 31 December 2003, the Group had 180 employees, including both the PRC and Hong Kong employees. Remuneration and bonus policy are basically determined by the performance of the individual employees and financial results of the Group. Total staff costs for the year amounted to RMB19.893million.

The Group adopted a share option scheme, details of which were set out in the Report of the Directors.

CHARGE ON GROUP ASSETS

As at 31 December 2003, the Group did not have any charges on group assets.

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 within sections headed "Comparison of Use of Proceeds" and "Review of Business Objectives" in the section of Management Discussion and Analysis. Other than those disclosed, the Group did not have any plan for material investments or capital assets.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The Group's revenue generating operations are mainly transacted in RMB. The directors consider the impact of foreign exchange exposure to the Group is minimal.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group did not have any material contingent liabilities (2002: nil).

PROSPECTS OF NEW PRODUCTS

Please refer to the Chairman's Statement for a discussion on this.

COMPARISON OF USE OF PROCEEDS

The net proceeds raised from the placing of shares in the Company 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 which are detailed below:

		Use of proceeds as stated in the prospectus *HK$'000*	Actual amount utilized up to 31 December 2003 *HK$'000*
Research and development of new products and technologies	(ii)	25,000	17,499
Sales, marketing and promotion of new products	(ii)	7,500	2,863
Expansion of regional offices, implementation of CMM and enhancement of internal information network infrastructure	(iii)	5,500	820
Repayment of bank loans and other borrowing	(i)	8,300	14,000
Repayment of shareholder's loan		4,200	4,200
General working capital	(iv)	11,400	22,518
		61,900	61,900

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

(ii) The under-utilisation is primarily attributable to delay in research and development and marketing of certain software products.

(iii) The under-utilisation is primarily attributable to delay in expansion of regional office network in accordance to current market condition.

(iv) The excess utilisation is attributable to the Group's decision to support its ongoing business operations and the actual amounts used exceed preliminary expectation.

REVIEW OF BUSINESS OBJECTIVES

Objectives as stated in the Statement of Business Objectives of the prospectus	Actual business progress
1. ALLWEB banking solution	
I. Bank CRM solution	
For the six months ending 30 June 2003	
Full launch of Bank CRM Solution	The financial products available in the PRC are still limited even though the PRC joined WTO. So it is not necessary for PRC commercial banks invest heavily in IT system to support their CRM solution. For this reason, the Group has to delay the progress on its system development to be in line with the prevailing market conditions in the PRC.
For the six months ending 31 December 2003	
Market Bank CRM Solution to the Group's banking customers	The Group delays the progress on its system development to be in line with the prevailing market conditions in the PRC.
II. Bank financial management system	
For the six months ending 30 June 2003	
Market Bank Intermediary Business System Package to the Group's commercial banking customers	The Group is still promoting the further research of the system platform, which ideally can be applied uniformly in the bank finance management series, including Bank Securities Finance Management System and Bank Fund Finance Management System. Trial sales for the Bank Insurance Finance Management System will be delayed in accordance with the market conditions. Bank Insurance Financial Management System will be delayed in accordance with the market conditions.
For the six months ending 31 December 2003	
Market Bank Intermediary Business System Package to the Group's commercial banking customers	Bank Insurance Financial Management System will be delayed in accordance with the market conditions.

REVIEW OF BUSINESS OBJECTIVES *(Cont'd)*

Objectives as stated in the Statement of Business Objectives of the prospectus	Actual business progress
III. Bank account manager system	
For the six months ending 30 June 2003	
Integrate the functions of Bank IC Card Application System, POS Application System on the ALLWEB financial platform	The system integration completed. The first client is Wenzhou Commercial Bank.
For the six months ending 31 December 2003	
Full launch of ALLWEB financial platform and realise the real time electronic payment functions for multiple industrial sectors	After the integration completed, the Group is searching for other potential clients.
IV. Bank supervision system	
For the six months ending 30 June 2003	
Market Bank Supervision System to the Group's commercial banking customers	Marketing activities were conducted for the Bank Internal Audit System. Successfully installed of the system for the Internal Auditing Department of Industrial and Commercial Bank of China.
For the six months ending 31 December 2003	
Market Bank Supervision System to the Group's commercial banking customers	Marketing activities were conducted for the system and the Group is searching for new potential clients

REVIEW OF BUSINESS OBJECTIVES *(Cont'd)*

Objectives as stated in the Statement of Business Objectives of the prospectus	Actual business progress
2. ALLWEB securities solution	
I. Brokerage CRM solution	
For the six months ending 30 June 2003	
Market Brokerage CRM Solution to the Group's brokerage firm customers	The financial products available in the PRC are still limited even though the PRC joined WTO. It is not necessary for PRC commercial banks to invest heavily in IT systems to support their CRM solution.For this reason, the Group has to delay the progress on its system development to be in line to the prevailing market conditions in the PRC.
For the six months ending 31 December 2003	
Market Brokerage CRM Solution to the Group's brokerage firm customers	The Group delays the progress on the system development to be in line to the prevailing market conditions in the PRC.
II. ALLWEB Enterprise Securities Transaction System	
For the six months ending 30 June 2003	
Full launch of the Unix version	The Unix version is completed. The Group is searching for other potential clients.
For the six months ending 31 December 2003	
Market the ALLWEB Enterprise Securities Transaction System to the Group's brokerage firm customers	The Unix version is completed. The Group is negotiating for some potential clients and searching for other potential clients.

REVIEW OF BUSINESS OBJECTIVES *(Cont'd)*

Objectives as stated in the Statement of Business Objectives of the prospectus	Actual business progress
3. ALLWEB electronic financial service platform	
For the six months ending 30 June 2003	
Full launch of the ALLWEB Electronic Financial Service Platform to the financial industry in the PRC	System development of the Electronic Financial Service Platform completed. The first client is Nanjing Commercial Bank and currently engages in the testing stage.
For the six months ending 31 December 2003	
Market the ALLWEB Electronic Financial Service Platform to the financial industry in the PRC	System development of the Electronic Financial Service Platform completed. The first client is Nanjing Commercial Bank. System development of the Foreign Exchange System completed. The Guang Fa Bank was successfully implemented and currently engages in phase two upgrading.
4. Business development & information network	
For the six months ending 30 June 2003	
To upgrade the functions of the Group's internal information network infrastructure	Completion of internal information network infrastructure upgrade.
For the six months ending 31 December 2003	
I. To complete the final stage of construction of the Group's internal information network infrastructure	Completion of internal information network infrastructure upgrade. Surpass the objective stated in the Prospectus.
II. To expand the Group's regional sales office in Xian	The Group delays the progress on expanding the sales office in Xian.

REVIEW OF BUSINESS OBJECTIVES *(Cont'd)*

Objectives as stated in the Statement of Business Objectives of the prospectus	Actual business progress
5. Marketing & promotion	
For the six months ending 30 June 2003	
I. To participate in the PRC securities products exhibitions	Due to the effects of SARS, the Group temporarily decided not to participate the PRC securities products exhibitions.
II. To conduct the ALLWEB series products road shows in the major cities in the PRC	
For the six months ending 31 December 2003	
I. To participate in the PRC bank products exhibitions	Due to the effects of SARS, the Group temporarily decided not to participate the PRC bank products exhibitions.
II. To conduct the ALLWEB series products road shows in the major cities in the PRC	
6. CMM	
For the six months ending 30 June 2003	
Complete all the improvement process	The improvement process of CMM2 is undergoing. The Group expects to receive the certificate of CMM2 in October, 2003. The improvement progress of CMM2 is currently at Pilot Phase and will reach mini-assessment stage in the September, 2003.
For the six months ending 31 December 2003	
Complete all the level IV CMM recognition process	The Group received the certificate of CMM2 in November, 2003.

FIVE YEARS FINANCIAL SUMMARY OF THE GROUP

	Year ended 31 December 2003 *RMB'000*	Year ended 31 December 2002 *RMB'000*	Year ended 31 December 2001 *RMB'000*	Year ended 31 December 2000 *RMB'000*	For the period from 27 May 1999 to 31 December 1999 *RMB'000*
Turnover	**37,848**	62,853	70,416	87,028	38,254
(Loss) / Profit attributable to shareholders	**(31,667)**	(10,313)	10,460	10,826	3,044
Total assets	**80,559**	117,729	131,526	62,484	42,893
Total liabilities	**(39,970)**	(45,456)	(45,842)	(50,678)	(31,904)
Net assets	**40,589**	72,273	85,684	11,806	10,989

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year ended 31 December 2003 attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	39.5%
— five largest suppliers combined	68.3%
Sales	
— the largest customer	10.6%
— five largest customers combined	42.0%

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 59, 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 50, is the Director, Vice Chairman 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 planning. Prior to joining the Group, he served as the Director of 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 tertiary education in management from Zhejiang College of Television broadcasting.

Mr. Xu Shu Yi, aged 39, is the Director of the Group. He became a qualified professional accountant in China in 1995. He has 20 years experience of finance and directorship in various business sectors including properties development, hotel and food manufacturing, etc. His responsibilities are to formulate the Group's financial planning and strategy. He also participates some important financial decision making in the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Pao Ping Wing, aged 56, is the Independent Non-Executive Director and the Chairman of Audit Committee of the Group. He was appointed his first Independent Non-Executive Director by Oriental Press Group Limited since 1987 and at the same year, he was also appointed as the Justice of the Peace in Hong Kong. He has over 17 years experience in performing an Independent Non-Executive Director because he was appointed as an Independent Non-Executive Director by three different listed companies in Hong Kong.

Professor Pan, *Yun He*, aged 57, 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 to the position by the State Council in September 1998 and was also recognized as a vice-ministerial level official in February 2000. Mr. Pan received his master degree in Computer Science from Zhejaing 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.

SENIOR MANAGEMENT

Mr. Xiong Jianli, aged 58, is the Vice President of the Group and the General Manager of one of the subsidiaries of the Group, Hangzhou Sing Lee Technology Co. Ltd. Mr. Xiong served the Group for over 7 years and is mainly responsible for the implementation of Electronic Payment and Automatic Transfer System of the Group in various cities in China. He has outstanding contribution to the Group in respect to POS Sharing System.

Mr. Wang Xi, aged 36, is the Vice President of the Group and the General Manager of Hangzhou Sing Lee Technology Co., Ltd., and Sing Lee Software (Zhuhai) Co., Ltd. Mr. Wang graduated his Computer Science Master degree from Harbin University of Technology. He is experienced in banking IT sector as he worked for ten years in the Software Development Center of Bank of China. In the Software Development Center, he also has to manage the whole technical part of projects including developing, promoting and maintenance, etc. Mr. Wang has in-depth knowledge of the IT planning and surroundings of banking industry and made him becoming an expert of the general banking business and the operation in the banking industry.

Mr. Wang Yu Min, aged 41, is the Vice President and Chief Consultant of the Group. Mr. Wang graduated his bachelor degree in Chemistry & Physics from Shanghai Fudan University. In 1992, he acquired his Doctor of Philosophy in Chemistry & Physics from the Yale University in Connecticut of United Stated. In 1993, Mr. Wang joined the JP Morgan as the quantitative analyst. During working in JP Morgan, he was being as the department head of New York Global Products Quantitative Analysis and Risk Management, the department head of Singapore and Asian-Pacific Region Investment Portfolios, the Vice President of Securities Department. After that, he was the Risk Management Chief Consultant in an international advisory company which served various organizations such as banks, securities brokerage firms and governments in China and overseas. As a result, his profound experience made him being an expert of corporate finance in China and overseas.

Mr. Li Ban, aged 38, is the General Manager of the Group's head quarter. He graduated his bachelor degree in law from East China Normal University and he also acquired his Master degree in Business and administration from Tongji University. Now, he is a tutor and an assistant professor. In 2003, he addressed as the China Labor Model in Information Technology Industry and was also being the principal representative responsible for the projects including "National 863 Technology" and "Zhejiang Provincial Programming". At the same time, he also announced many software industry research papers. Mr. Li started to work in the Group from 1995, so he has won plenty of corporate managing experience especially in the capital operation and law issues for these 8 years.

Mr. Wu Yingyu, aged 36, is the Assistant General Manager of Hangzhou Sing Lee Technology Co., Ltd and Sing Lee Software (Zhuhai) Co. Ltd. Mr. Wu graduated from Hangzhou University of Electronic Science and Technology in 1989 with an engineering bachelor degree. He also holds his MBA from Zhejiang University. Mr. Wu started to serve the Group in 1996 and is responsible for the banking software business of the Group.

Mr. Lau Ying Kit, aged 30, is the Financial Controller and the Company Secretary of the Group. He holds a bachelor degree in business and is an associate member of Hong Kong Society of Accountant. Prior to joining the Group in December 2003, he has accumulated over 8 years of accounting experience in different business industries in Hong Kong and the PRC. Furthermore, he is also proficient in the corporate information system. He is now responsible for managing the Group's finance, capital raising activities and company secretarial duties, etc.

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the development and sale of information and network technologies and services to the financial industry in the PRC.

The principal activities of the subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 26.

The directors of the Company do not recommend the payment of a dividend.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

Pursuant to the Company Act 1981 of Bermuda, share premium of the Company is distributable to the shareholders. At 31 December 2003, the Company's reserves available for distribution to shareholders amounted in total to approximately RMB43,092,000 (2002: RMB65,292,000).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, 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:

Name	**Number of shares**		**Percentage of issued share capital**
Goldcorp Industrial Limited	306,000,000	*(note 1)*	50.7%
Great Song Enterprises Limited	306,000,000	*(notes 1 and 2)*	50.7%
Mr. Hung Yung Lai	306,000,000	*(notes 2 and 4)*	50.7%
Ms. Li Kei Ling	306,000,000	*(notes 2 and 3)*	50.7%

Notes:

1. The shares are held by Goldcorp Industrial Limited. 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 306,000,000 shares held by Goldcorp Industrial Limited.

4. Mr. Hung Yung Lai controls more than one third of the voting power of Goldcorp Industrial Limited. Mr. Hung Yung Lai is deemed, by virtue of the SDI Ordinance, to be interested in the same 306,000,000 shares held by Goldcorp Industrial Limited.

Save as disclosed above, the Company had not been notified of any interests representing 10% or more of the Company's issued share capital as at 31 December 2003.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2003, the beneficial interests of the Directors and chief executives in the securities 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 Stock Exchange pursuant to minimum standards of dealing by Directors as refer to in rules 5.40 to 5.59 of the GEM Listing Rule were as follows:

Shares in the Company:

	Number of ordinary shares			
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**
Mr. Hung Yung Lai	Nil	Nil	306,000,000 *(note 1)*	Nil
Ms. Li Kei Ling	Nil	Nil	306,000,000 *(note 1)*	Nil

Shares in associated corporation:

	Number of ordinary shares in Goldcorp Industrial Limited *(note 2)*			
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**
Mr. Hung Yung Lai	1	Nil	Nil	Nil
Ms. Li Kei Ling	Nil	Nil	1 *(note 3)*	Nil

Notes:

1. 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 306,000,000 shares held by Goldcorp Industrial Limited.

2. The entire issued capital of Goldcorp Industrial Limited as of 31 December 2003 was composed of 2 ordinary shares. Goldcorp Industrial Limited held 306,000,000 Shares in the Company.

3. The share was held by Great Song Enterprises Limited which is a company wholly owned by Ms. Li Kei Ling.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES *(Cont'd)*

On 8 April 2002, the Company granted the following options to subscribe for shares in the Company under the Company's Share Option Scheme adopted on 27 August 2001 at an exercise price of HK$0.614:

Name of Director	Number of shares subject to the options granted
Cui Jian	3,180,000
Li Kei Ling	2,300,000

Save as disclosed above, as at 31 December 2003, none of the directors, chief executives, or their respective associates had any beneficial interests in the securities of the Company or its associated corporations as recorded in the register required to be kept under section 29 of the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") adopted on 27 August 2001, the Directors may at their discretion grant options to employees (including Directors of the Company) of the Group and other persons who, in the sole discretion of the board of the Directors, have contributed to the Group ("Participants"). The Scheme enables the Company to grant share options to Participants as incentives or rewards for their contribution to the Group. The Scheme would be valid and effective for a period of ten years commencing on the adoption date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time. After the listing of the shares on GEM, the total number of shares which may be issued upon the exercise of all options to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the shares in issue upon completion of placing, capitalisation issue and say other shares to be issued upon the exercise of the over-allotment option in connection with the listing of the shares on GEM. According to the Scheme, the total number of shares available for issue as at 31 December 2003 is 60,300,000 shares.

The total number of shares issued and to be issued upon the exercise of options granted and to be granted to each Participant (including both exercised and outstanding options) in any 12 months period up to the date of grant must not exceed 1% of the shares in issue at the date of grant.

The subscription shall be a price determined by the board of directors at its absolute discretion and shall not be less than the higher of the closing price of the share on the date of grant of the option and the average closing price of the shares for the five business days immediately preceding the date of grant of the option.

Options granted shall be deemed to be accepted upon receipt of the acceptance of offer letter from the grantee within 28 days from the offer date, together with a remittance in favour of the Company of HK$1 by way of consideration for the grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period notified by the board to each grantee but may not be exercised after the expiry of 10 years from the date of grant.

SHARE OPTION SCHEME *(Cont'd)*

On 8 April 2002 the Company granted 60,230,000 options to subscribe for shares in the Company under the Scheme at an exercise price of HK$0.614 per share to 163 employees (including three executive directors) of the Group. Shares of the Company were at closing price HK$0.58 immediately before the day on which options were granted. The summary details of options granted are as follows:

Name of directors and employees	Exercise period	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options outstanding as at 31 December 2003
Cui Jian	7 September 2002 to 7 April 2012	3,180,000	—	—	—	3,180,000
Li Kei Ling	7 September 2002 to 7 April 2012	2,300,000	—	—	—	2,300,000
Duan Patrick	7 September 2002 to 7 April 2012	3,800,000	—	—	(3,800,000)	—
Continuous contract employees (other than directors)	7 September 2002 to 7 April 2012	50,950,000	—	—	(29,600,000)	21,350,000
		60,230,000	—	—	(33,400,000)	26,830,000

The directors consider it inappropriate to value the options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and misleading. Therefore the directors believe that the cost for disclosing the value of options do not justify for the benefits it provides.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company nor any of its subsidiaries was a party to any arrangements to enable the directors or chief exceutive of the Company, their spouse and children under 18 of age had any right to subscribe for the securities of the Company, or had exercised any such right.

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 2003 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

ICEA Capital Limited (the "Sponsor") has entered into a Sponsor agreement with the Company whereby, for a fee, the Sponsor will act as the Company's retained Sponsor for the purpose of Chapter 6 of the GEM Listing Rules up to 31 December 2003.

None of the Sponsor, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any other company of the Group (including options or rights to subscribe for such securities) as at 31 December 2003.

DIRECTORS

The directors of the Company for the period from 1 January 2003 to the date of this report were:

Executive Directors
Hung Yung Lai *(Chairman)*
Cui Jian
Duan Patrick (resigned on 19 March 2003)
Li Kei Ling (resigned on 6 January 2004)
Xu Shu Yi (appointed on 6 January 2004)

Independent Non-Executive Directors
Pan Yun He
Wang Gui Guo (resigned on 22 December 2003)
Pao Ping Wing (appointed on 22 December 2003)

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, offers herself 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 months' 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.

On 6 January 2004, Ms. Li Kei Ling resigned as an executive director. Although the service contract stated the period of services being 3 years and termination notice being 6 months before resignation, the Group and the board of directors agreed the resignation of Ms. Li Kei Ling and both parties have no right to claim for the compensation for this matter. Furthermore, both parties agreed to exempt all the responsibilities, duties, claims and compensation stated in the service contract.

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 SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed on note 30 of the notes to the financial statements, 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.

CONNECTED TRANSACTIONS

Save as disclosed in note 30 of the notes to the financial statements, the connected transactions are exempted from the reporting, announcement and shareholders' approval requirement pursuant to the GEM Listing Rule 20.23.

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

Since the listing of the Company on GEM of the Stock Exchange, the Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee on 27 August 2001, with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group and to provide advice and comments to the Board.

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

Name	Position in the audit committee	Position in the Board of Directors
Prof. Wang, Gui Guo *(resigned on 22 December 2003)*	Chairman	Independent non-executive Director
Prof. Pan, Yun He	Member	Independent non-executive Director
Mr. Pao Ping Wing *(appointed on 22 December 2003)*	Chairman	Independent non-executive Director

Since the listing of the Company's shares on GEM on 5 September 2001, and up to the date of approval of the financial statements, the audit committee has held eight meetings and has reviewed and commented in the Company's draft annual, interim and quarterly reports.

AUDITORS

The Company's auditors, Charles Chan, Ip & Fung CPA Ltd. retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Hung Yung Lai
Chairman

Hong Kong, 30 March 2004

Auditors' Report

Charles Chan, Ip & Fung CPA Ltd.
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, 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 consolidated balance sheet of the Company and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year then ended. These financial statements set out on pages 26 to 57 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 statements 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 2003 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.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Hong Kong
30 March 2004

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statment

For the year ended 31 December 2003
(Expressed in thousands of Renminbi ("RMB") except for loss per share)

		Group	
	Note	**2003**	2002
		RMB'000	*RMB'000*
Revenue	3	**37,848**	62,853
Cost of sales		**(38,863)**	(45,004)
Gross (loss)/profit		**(1,015)**	17,849
Distribution costs		**(14,963)**	(17,070)
General and administrative expenses		**(24,058)**	(17,364)
Other operating income	4	**8,877**	6,921
Loss from operations		**(31,159)**	(9,664)
Finance costs	5	**(508)**	(649)
Loss before tax	6	**(31,667)**	(10,313)
Income tax expenses	8	**—**	—
Loss after tax		**(31,667)**	(10,313)
Minority interests		**—**	—
Loss attributable to shareholders		**(31,667)**	(10,313)
Dividends	9	**—**	3,196
Loss per share	10		
— Basic		**(RMB5.25 cents)**	(RMB1.71 cents)
— Diluted		**N/A**	N/A

Balance Sheets

As of 31 December 2003
(Expressed in thousands of RMB)

		Group		Company	
	Note	**2003**	2002	**2003**	2002
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Intangible assets	12	**10,261**	9,229	**—**	—
Property, plant and equipment	13	**7,391**	9,830	**76**	71
Investment in subsidiaries	14	**—**	—	**55,772**	50,893
Trade receivables	17	**2,300**	—	**—**	—
		19,952	19,059	**55,848**	50,964
Current assets					
Deposits, prepayments and other receivables	15	**10,135**	10,276	**756**	930
Inventories	16	**14,035**	11,280	**4,514**	283
Trade receivables	17	**22,766**	44,332	**—**	7,594
Cash and cash equivalents	18	**13,671**	32,782	**1,035**	14,350
		60,607	98,670	**6,305**	23,157
Current liabilities					
Short-term borrowings	19	**—**	8,000	**—**	—
Trade payables	20	**11,469**	17,092	**—**	120
Accruals and other payables		**1,828**	2,244	**250**	455
Customers' deposits	21	**3,992**	4,563	**—**	—
Bills payable	22	**9,540**	1,848	**7,317**	1,848
Amount due to ultimate holding company	23	**1,922**	14	**1,922**	14
Amount due to a related company	23	**3,180**	—	**3,180**	—
Tax payable	24	**7,562**	9,774	**—**	—
Deferred income	25	**477**	1,921	**—**	—
		39,970	45,456	**12,669**	2,437
Net current assets/(liabilities)		**20,637**	53,214	**(6,364)**	20,720
Total assets less current liabilities		**40,589**	72,273	**49,484**	71,684
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	26	**6,392**	6,392	**6,392**	6,392
Reserves	27	**34,197**	65,881	**43,092**	65,292
		40,589	72,273	**49,484**	71,684

Approved and authorised for issue by and signed on behalf of the Board of Directors on 30 March 2004

Hung Yung Lai
Chairman

Mr. Xu Shu Yi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003
(Expressed in thousands of RMB)

	2003							2002
	Share capital *RMB'000*	**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*
Balance as at beginning of year	**6,392**	**59,267**	**—**	**3,546**	**4**	**3,064**	**72,273**	85,684
Translation adjustments	**—**	**—**	**—**	**—**	**10**	**—**	**10**	—
Profit appropriation to reserve fund under-provided	**—**	**—**	**—**	**94**	**—**	**(94)**	**—**	—
Reverse over accrued share issuing expenses	**—**	**—**	**—**	**—**	**—**	**—**	**—**	144
Utilisation for the year	**—**	**—**	**—**	**(27)**	**—**	**—**	**(27)**	(46)
Net loss for the year	**—**	**—**	**—**	**—**	**—**	**(31,667)**	**(31,667)**	(10,313)
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	(3,196)
Balance as at end of year	**6,392**	**59,267**	**—**	**3,613**	**14**	**(28,697)**	**40,589**	72,273

Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Expressed in thousands of RMB)

	Note	**2003**	2002
		RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash used in operations	28(a)	**(16,050)**	(11,079)
Interest paid		**(305)**	(649)
Net cash used in operating activities		**(16,355)**	(11,728)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales proceeds of property, plant and equipment		**500**	—
Purchase of property, plant and equipment		**(1,037)**	(3,315)
Additions of intangible assets		**(2,010)**	(6,860)
Interest received		**89**	416
Net cash used in investing activities		**(2,458)**	(9,759)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		**—**	(3,196)
Cash received from bank loans		**5,000**	21,000
Repayment to bank loans		**(13,000)**	(24,000)
Net cash used in financing activities		**(8,000)**	(6,196)
Net decrease in cash and cash equivalents		**(26,813)**	(27,683)
Cash and cash equivalents at beginning of year		**30,934**	58,617
Effect of foreign exchange differences		**10**	—
Cash and cash equivalents at end of year	28(b)	**4,131**	30,934

1. GENERAL

Sing Lee Software (Group) Limited (the "Company") was incorporated in Bermuda 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.

The Company is an investment holding company. Its subsidiaries established in the PRC 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 the PRC 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 PRC and employed approximately 180 employees as at 31 December 2003.

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 the PRC and its business activities are principally transacted in Renminbi ("RMB"), the financial statements are prepared in RMB.

(b) PRINCIPLES OF CONSOLIDATION

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

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

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

(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.

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
Motor vehicles	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 cash 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.

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

(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 5 years.

(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 recognised 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.

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

(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").

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.

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

(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.

(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 the British Virgin Islands ("BVI") subsidiary maintain their books and records in Hong Kong dollars ("HK$"). The subsidiaries established in the PRC 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 consolidation, all of the assets and liabilities of the 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 the 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.

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

(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.

(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 is 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.

(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.

(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.

3. REVENUE

	Group	
	2003	2002
	RMB'000	*RMB'000*
Sale of software	**18,396**	22,318
Sale of hardware	**15,622**	36,181
Revenue from maintenance services	**3,830**	4,354
	37,848	62,853

All sales were derived from the PRC.

4. OTHER OPERATING INCOME

	Group	
	2003	2002
	RMB'000	*RMB'000*
Income from opening source code after tax	**6,650**	—
Interest income from bank deposits	**89**	416
VAT refund *(See Note 24)*	**1,581**	5,068
Enterprise income tax refund	**—**	805
Government subsidies	**530**	632
Other income	**27**	—
	8,877	6,921

5. FINANCE COSTS

	Group	
	2003	2002
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within 5 years	**305**	584
Bank charges	**102**	52
Exchange difference	**101**	13
	508	649

6. LOSS BEFORE TAX

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

	Group	
	2003	2002
	RMB'000	*RMB'000*
After crediting:		
Written back of provision for doubtful receivables	**—**	190
After charging:		
Employment costs		
— Salaries and wages	**17,833**	18,475
— Provision for bonus and welfare fund	**1,713**	1,865
— Contribution to retirement schemes *(See Note 29)*	**347**	1,429
	19,893	21,769
Cost of inventories sold	**23,448**	29,390
Research and development costs expenditures	**9,469**	7,600
Amortisation of intangible assets	**803**	359
Impairment loss for intangible assets	**175**	—
Depreciation of property, plant and equipment	**2,811**	2,410
Provision for doubtful debts	**6,278**	1,219
Provision for obsolete inventories	**2,006**	—
Operating lease rentals	**3,296**	3,617
Loss on disposal of property, plant and equipment	**165**	251
Auditors' remuneration	**249**	425

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

	Group	
	2003	2002
	RMB'000	*RMB'000*
Fees	**153**	—
Salaries, allowances and benefits in kind	**187**	1,436
Retirement benefits	**8**	47
Bonus	**—**	—
	348	1,483

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

	2003	2002
	Number	Number
Nil - RMB1,060,000 (equivalent to HK$1,000,000)	**7**	6

The seven (2002: six) directors received individual emoluments of approximately RMB151,000, RMB116,000, RMB76,000, RMB5,000, RMB nil, RMB nil and RMB nil for the year ended 31 December 2003 (2002: RMB708,000, RMB487,000, RMB210,000, RMB78,000, RMB nil and RMB nil respectively).

The 4 executive directors waived emoluments of approximately RMB nil during the year ended 31 December 2003 (2002: RMB5,719,000).

7. 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:

	2003	2002
	RMB'000	*RMB'000*
Fees	**—**	—
Salaries, allowances and benefits in kind	**1,018**	2,524
Retirement benefits	**35**	64
Bonus	**—**	—
Loss of office	**—**	159
	1,053	2,747

	2003	2002
	Number	Number
Number of directors	**2**	2
Number of employees	**3**	3
	5	5

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

	2003	2002
	Number	Number
Nil - RMB1,060,000 (equivalent to HK$1,000,000)	**5**	5

(iii) During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group (2002: Nil).

During the year, RMBnil was paid as compensation for loss of office to the five highest paid individuals (including directors and employees) (2002: RMB159,000).

8. INCOME TAX EXPENSE

	Group	
	2003	2002
	RMB'000	*RMB'000*
PRC enterprise income tax (c)	—	—

(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 BVI is incorporated under the International Business Companies Acts of the BVI and, accordingly, is exempt from payment of BVI income taxes.

(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) PRC enterprise income tax

As foreign investment enterprises that incorporated in the Advanced Technology Industry Development Area in Hangzhou City and Zhuhai 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. Foreign investment enterprises are also exempted from income tax in years with financial loss.

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

	2003		2002	
	RMB'000	***%***	*RMB'000*	*%*
Accounting loss before taxation	**(31,667)**	**100**	(10,313)	100
Tax at the statutory tax rate	**—**	**—**	742	15
— Tax exempted	**—**	**—**	(742)	(15)
Tax expense	**—**	**—**	—	—

There was no significant unprovided deferred taxation for the year ended 31 December 2003 (2002: Nil).

9. DIVIDENDS

	2003	2002
	RMB'000	*RMB'000*
Final dividends of HK$0.005 per share declared and paid	—	3,196

During the year ended 31 December 2003, no dividend was declared and paid.

During the year ended 31 December 2002, final dividends of HK$0.005 per share were declared and paid.

Subsequent to 31 December 2003, the directors of the company do not recommend the payment of a final dividend.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated net loss for the year attributable to shareholders of approximately RMB31,667,000 (2002: RMB10,313,000) divided by the weighted average number of ordinary shares outstanding during the year of 603,000,000 shares (2002: 603,000,000 shares). No diluted loss per share was presented as the exercise of share options would have an anti-dilutive effect during the year.

11. SEGMENT INFORMATION

The Group conducts its business in the PRC 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 the PRC and its assets are primarily located in the PRC. Accordingly, no segment information is presented.

12. INTANGIBLE ASSETS

	Group			
	2003			2002
	Development costs	**Software**	**Total**	Total
	RMB$'000	***RMB'000***	***RMB'000***	*RMB'000*
Cost				
Beginning of year	**8,672**	**927**	**9,599**	2,739
Additions	**1,998**	**12**	**2,010**	6,860
End of year	**10,670**	**939**	**11,609**	9,599
Accumulated depreciation				
Beginning of year	**292**	**78**	**370**	11
Amortisation for the year	**615**	**188**	**803**	359
Impairment loss	**175**	**—**	**175**	—
End of year	**1,082**	**266**	**1,348**	370
Net book value				
End of year	**9,588**	**673**	**10,261**	9,229
Beginning of year	**8,380**	**849**	**9,229**	2,728

Development costs capitalised include expenses incurred by the Group in the development of certain new software products. During the year ended 31 December 2003, total expenditures on research and development were approximately RMB11,467,000 of which approximately RMB1,998,000 was capitalised. The Group was able to demonstrate that the new products met the criteria for recognition as an intangible asset.

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 2003.

13. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were:

	Group					
	2003					2002
	Leasehold improvements *RMB'000*	**Computer and related equipment** *RMB'000*	**Other office equipment** *RMB'000*	**Motor vehicles** *RMB'000*	**Total** *RMB'000*	Total *RMB'000*
Cost						
Beginning of year	**2,861**	**9,506**	**3,072**	**706**	**16,145**	13,942
Additions	—	**582**	**455**	—	**1,037**	3,315
Disposals	—	**(1,446)**	**(159)**	—	**(1,605)**	(1,112)
End of year	**2,861**	**8,642**	**3,368**	**706**	**15,577**	16,145
Accumulated depreciation						
Beginning of year	**783**	**4,188**	**1,317**	**27**	**6,315**	4,766
Charge for the year	**493**	**1,548**	**491**	**279**	**2,811**	2,410
Disposals	—	**(797)**	**(143)**	—	**(940)**	(861)
End of year	**1,276**	**4,939**	**1,665**	**306**	**8,186**	6,315
Net book value						
End of year	**1,585**	**3,703**	**1,703**	**400**	**7,391**	9,830
Beginning of year	**2,078**	**5,318**	**1,755**	**679**	**9,830**	9,176

13. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Company			
	2003			2002
	Computer and related equipment	**Other office equipment**	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Cost				
Beginning of year	**94**	**—**	**94**	51
Additions	**34**	**—**	**34**	43
Disposals	**(21)**	**—**	**(21)**	—
End of year	**107**	**—**	**107**	94
Accumulated depreciation				
Beginning of year	**23**	**—**	**23**	9
Charge for the year	**20**	**—**	**20**	14
Disposals	**(12)**	**—**	**(12)**	—
End of year	**31**	**—**	**31**	23
Net book value				
End of year	**76**	**—**	**76**	71
Beginning of year	**71**	**—**	**71**	42

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 2003.

14. INVESTMENT IN SUBSIDIARIES

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

	2003	2002
	RMB'000	*RMB'000*
Share of net identifiable assets of subsidiaries	**—**	19,626
Amounts due from subsidiaries	**55,772**	30,065
Loans to subsidiaries	**—**	1,202
	55,772	50,893

The amounts due from subsidiaries were unsecured, interest free and repayable beyond one year.

The loans to subsidiaries were unsecured, interest bearing at 5.04% per annum and repayment before the end of March 2003.

The directors are of the opinion that the underlying value of the subsidiaries was not less than their carrying value as of 31 December 2003.

As of 31 December 2003, the Company had interests in the following subsidiaries:

Name	**Date and place of incorporation/ operation**	**Percentage of equity interest attributable to the Company**		**Registered/fully paid-up capital**	**Principal activities**
		Direct	Indirect	*US$*	
Sing Lee Electronics (B.V.I.) Co., Ltd. ("Singlee BVI")	3 September 1999 British Virgin Islands/Hong Kong	100%	—	50,000/ 715	Investment holding
Hangzhou Singlee Software Company Limited ("Singlee Software")	27 May 1999 The PRC	—	100%	4,625,000/ 3,388,000	Development, manufacture and sale of software products, sale of related hardware products and provision of software-related technical services

14. INVESTMENT IN SUBSIDIARIES

Name	Date and place of incorporation/ operation	Percentage of equity interest attributable to the Company		Registered/fully paid-up capital	Principal activities
		Direct	Indirect	*US$*	
Hangzhou Singlee Technology Company Limited ("Singlee Technology")	16 October 2002 The PRC	—	100%	1,584,000/ 1,200,000	Same as above
Singlee Software (Zhuhai) Company Limited ("Singlee Zhuhai")	15 March 2003 The PRC	—	100%	1,250,000/ 1,250,000	Same as above

The three indirectly-owned subsidiaries were wholly foreign-owned enterprises registered in the PRC. During the year ended 31 December 2003, for the purpose of obtaining government subsidies granting, reorganisation within Group took place, Singlee Technology and Singlee Zhuhai become sino-foreign equity joint ventures registered in the PRC.

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		**Company**	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Business tax recoverable	**3,740**	3,740	**—**	—
Value-added tax ('VAT") recoverable *(Note 24)*	**644**	3,085	**—**	—
Enterprise income tax	**—**	70	**—**	—
Advance to employees	**747**	609	**—**	—
Deposits and others	**5,004**	2,772	**756**	930
	10,135	10,276	**756**	930

16. INVENTORIES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Finished goods, at cost	**16,041**	11,280	**4,514**	283
Less: Provision for obsolete inventories	**(2,006)**	—	**—**	—
	14,035	11,280	**4,514**	283

As of 31 December 2003, no inventory was stated at net realisable value (2002: Nil).

17. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**10,183**	20,088	**—**	4,451
Over 90 days but within 180 days	**3,317**	6,114	**—**	3,143
Over 180 days but within 365 days	**1,975**	4,415	**—**	—
Above 365 days	**18,185**	16,031	**—**	—
	33,660	46,648	**—**	7,594
Less: Provision for doubtful receivables	**(8,594)**	(2,316)	**—**	—
	25,066	44,332	**—**	7,594
Trade receivables over 12 months	**(2,300)**	—	**—**	—
Trade receivables within 12 months	**22,766**	44,332	**—**	7,594

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

The directors of the Company consider that provision for doubtful receivables is adequately provided for. Generally, 50% (2002: 5%) and 100% provision had been made for trade receivables aged 1.5 years to 2 years and exceeding 2 years respectively.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and cash equivalents				
— denominated in HK$	**881**	2,651	**855**	206
— denominated in US$	**208**	4,510	**180**	4,292
— denominated in RMB	**12,582**	25,621	**—**	9,852
	13,671	32,782	**1,035**	14,350

As of 31 December 2003, bank deposits amounting to approximately RMB nil (2002: RMB2,200,000) were pledged as security for banking facilities.

19. SHORT-TERM BORROWINGS

As of 31 December 2003, the Group's short-term bank loans amounted to RMB nil (2002: RMB8,000,000). As of 31 December 2002, short-term bank loans bear interest ranging from 5.54% to 5.58% per annum.

20. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 90 days	**8,022**	16,665	**—**	—
Over 90 days but within 180 days	**684**	376	**—**	120
Over 180 days but within 365 days	**2,497**	27	**—**	—
Above 365 days	**266**	24	**—**	—
	11,469	17,092	**—**	120

21. CUSTOMERS' DEPOSITS

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

22. BILLS PAYABLE

As of 31 December 2003, the bills payable were secured by properties of a director and a related company (2002: the bills payable were unsecured).

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY/A RELATED COMPANY

The amounts are unsecured, interest free and have no fixed terms of repayment.

24. TAX PAYABLE

	Group	
	2003	2002
	RMB'000	*RMB'000*
VAT payable	**7,482**	9,677
Others	**80**	97
	7,562	9,774

According to the PRC tax regulations, Singlee Software, Singlee Technology and Singlee Zhuhai are subject to VAT on its sales in the PRC, 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 4).

25. DEFERRED INCOME

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

26. SHARE CAPITAL

	Number of shares	**Nominal value**	**Nominal value**
		HK$	*RMB*
Authorised (ordinary share of HK$0.01 each)	10,000,000,000	100,000,000	106,000,000
Issued and fully paid (ordinary shares of HK$0.01 each):			
As at 31 December 2003	603,000,000	6,030,000	6,391,800
As at 31 December 2002	603,000,000	6,030,000	6,391,800

27. RESERVES

Movements of reserves were:

	2003						2002
	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*
Group							
Balance as at beginning of year	**59,267**	**—**	**3,546**	**4**	**3,064**	**65,881**	79,292
Translation adjustments	**—**	**—**	**—**	**10**	**—**	**10**	—
Profit appropriation to reserve fund under-provided	**—**	**—**	**94**	**—**	**(94)**	**—**	—
Reverse over accrued share issuing expenses	**—**	**—**	**—**	**—**	**—**	**—**	144
Utilisation for the year	**—**	**—**	**(27)**	**—**	**—**	**(27)**	(46)
Net loss for the year	**—**	**—**	**—**	**—**	**(31,667)**	**(31,667)**	(10,313)
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	(3,196)
Balance as at end of year	**59,267**	**—**	**3,613**	**14**	**(28,697)**	**34,197**	65,881
Company							
Balance as at beginning of year	**59,267**	**4,718**	**—**	**—**	**1,307**	**65,292**	79,238
Reverse over accrued share issuing expenses	**—**	**—**	**—**	**—**	**—**	**—**	144
Net loss for the year	**—**	**—**	**—**	**—**	**(22,200)**	**(22,200)**	(10,894)
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	(3,196)
Balance as at end of year	**59,267**	**4,718**	**—**	**—**	**(20,893)**	**43,092**	65,292

27. RESERVES *(Cont'd)*

PRC 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 the PRC) but before dividend distribution. The subsidiaries are required to allocate at lease 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 2003, the reserve funds amounted to approximately RMB3,613,000 (2002: RMB3,546,000). 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.

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 2003, the Company's reserves available for distribution to shareholders amounted to approximately RMB43,092,000, 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 RMB59,267,000 and RMB4,718,000 respectively, less accumulated losses of approximately RMB20,893,000. The Company can only distribute its retained profits 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.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003	2002
	RMB'000	*RMB'000*
Cash flows from operating activities:		
Loss before tax	**(31,667)**	(10,313)
Reverse over accrued share issuing expenses	**—**	144
Utilisation of revenue reserve	**(27)**	(46)
Adjustments for:		
Written back of provision for doubtful receivables	**—**	(190)
Loss on disposal of property, plant and equipment	**165**	251
Depreciation of property, plant and equipment	**2,811**	2,410
Amortisation of intangible assets	**803**	359
Impairment loss	**175**	—
Interest expense	**305**	649
Interest income	**(89)**	(416)
Provision for doubtful debts	**6,278**	1,219
Provision for obsolete inventories	**2,006**	—
Operating loss before working capital changes	**(19,240)**	(5,933)
Increase in inventories	**(4,761)**	(3,767)
Decrease/(increase) in trade receivables	**15,288**	(6,642)
(Increase)/decrease in deposits, prepayments and other receivables	**(2,159)**	3,000
Decrease in amount due from ultimate holding company	**—**	21
(Decrease)/increase in trade payable	**(5,623)**	5,912
(Decrease)/increase in accruals and other payables	**(416)**	861
Decrease in customers' deposits	**(571)**	(2,257)
Increase in amount due to a related company	**3,180**	—
Increase in amount due to ultimate holding company	**1,908**	14
Decrease in tax payable	**(2,212)**	(2,338)
(Decrease)/increase in deferred income	**(1,444)**	50
Cash used in operations	**(16,050)**	(11,079)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

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

	2003	2002
	RMB'000	*RMB'000*
Cash and bank deposits	**12,713**	30,582
Fixed deposits	**958**	2,200
Bills payable	**(9,540)**	(1,848)
	4,131	30,934

29. 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, Singlee Technology and Singlee Zhuhai 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, Singlee Technology and Singlee Zhuhai are required to make monthly contributions to the retirement scheme, up to the time of retirement of the eligible employees, at 22%, 20% and 10% respectively of their basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

As of 31 December 2003, 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 consolidated results of operations of the Group for the current year, were as follows:

	2003	2002
	RMB'000	*RMB'000*
Contributions to retirement schemes	**347**	1,429

30. 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.

The Group had the following significant transactions with related companies, Hangzhou Singlee Electronics Company Limited ("Singlee Electronics"), Sing Lee Pharmaceutical Import & Export Company Limited ("Sing Lee Pharmaceutical") and Hangzhou New Dynamics Software Company Limited ("Hangzhou New Dynamics"), for the year ended 31 December 2003:

	Group	
	2003	2002
	RMB'000	*RMB'000*
Discontinuing transactions:		
Income after tax from opening source code to Hangzhou New Dynamics	**(6,650)**	—
Sales proceeds from disposal of property, plant and equipment to Hangzhou New Dynamics	**(500)**	—
	(7,150)	—
Continuing transactions:		
Rental paid to Singlee Electronics for lease of office premises	**—**	126
Rental paid to Singlee Electronics for lease of motor vehicles	**168**	168
Purchase of a motor vehicles from Singlee Electronics	**—**	201
Rental paid to Sing Lee Pharmaceutical for lease of office premises	**470**	427
	638	922

Notes:

(i) Singlee Electronics is a sino-foreign equity joint venture registered in the PRC. It is indirectly owned by Mr. Hung Yung Lai and Ms. Li Kei Ling.

(ii) Sing Lee Pharmaceutical is a limited company incorporated in Hong Kong. It is owned by Mr. Hung Yung Lai and Ms. Li Kei Ling, who are also the directors of the company.

(iii) Hangzhou New Dynamics is a sino-foreign equity joint venture registered in the PRC. Mr. Xu Ke Han, who was the Vice President and Financial Controller of the Group and resigned these titles during the year, has an equity interest and is a director of Hagnzhou New Dynamics.

(iv) The above related party transactions were carried out in the normal course of its business.

31. CONTINGENT LIABILITIES

As of 31 December 2003, the Group had no significant contingent liabilities.

32. COMMITMENTS

(a) Capital commitments

	2003	2002
	RMB'000	*RMB'000*
Contracted but not provided for		
— Acquisition of a subsidiary	**1,000**	—

During the year, the Group contracted with third parties in connection with the acquisition of a company engaged in software development business. After completion of the acquisition, such company would become a wholly-owned subsidiary of the Group. The total consideration is RMB1,000,000 and the first payment amounting to RMB500,000 had been paid in January 2004. The board of directors consider that the acquisition would be fully completed in the year 2004.

(b) Operating lease commitments

As of 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings and vehicles as follows:

	2003	2002
	RMB'000	*RMB'000*
Repayable:		
— not later than one year	**1,751**	3,106
— later than one year and not later than five years	**1,011**	1,112
	2,762	4,218

33. COMPARATIVE FIGURES

With a review of financial statements presentation, certain items in the financial statements were reclassified, which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform to the current year's presentation.

34. ULTIMATE HOLDING COMPANY

The directors regard Goldcorp Industrial Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company, which is owned by Mr. Hung Yung Lai and Ms. Li Kei Ling.

35. 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.

36. 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.

36. CONCENTRATION OF RISKS *(Cont'd)*

(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, the PRC 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 19.

(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.