



SING LEE SOFTWARE (GROUP) LIMITED

新利軟件(集團)股份有限公司*

(incorporated in Bermuda with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2004**

** For identification purposes only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Sing Lee Software (Group) Limited 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 Sing Lee Software (Group) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board of Directors (“Board”) of Sing Lee Software (Group) Limited (the “Company”) announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three and six months ended 30 June 2004, together with the unaudited comparative figures for the corresponding periods in 2003, as follows:

UNAUDITED COMBINED STATEMENT OF INCOME

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	2	7,090	7,981	9,764	14,224
Cost of sales		(6,094)	(6,688)	(9,945)	(13,969)
Gross profit/(loss)		996	1,293	(181)	255
Distribution costs		(2,259)	(2,999)	(3,997)	(7,931)
General and administrative expenses		(4,952)	(5,413)	(10,537)	(12,236)
Other operating income	3	302	7,445	3,908	8,020
Profit/(Loss) from operations		(5,913)	326	(10,807)	(11,892)
Finance costs		(54)	(120)	(137)	(331)
Profit/(Loss) before tax	4	(5,967)	206	(10,944)	(12,223)
Taxation	5	—	—	(55)	(3)
Profit/(Loss) after tax		(5,967)	206	(10,999)	(12,226)
Minority interests		—	—	—	—
Profit/(Loss) attributable to shareholders		(5,967)	206	(10,999)	(12,226)
Earnings/(Loss) per share					
- Basic	6	<u>Rmb(0.99) cents</u>	<u>Rmb0.03 cents</u>	<u>Rmb(1.82) cents</u>	<u>Rmb(2.03) cents</u>
- Diluted	6	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEETS

		(Unaudited) As at 30 June 2004 <i>Rmb'000</i>	(Audited) As at 31 December 2003 <i>Rmb'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Intangible assets		8,945	10,261
Property, plant and equipment, net		6,363	7,391
Goodwill	8	272	—
Trade receivables	9, 12	2,300	2,300
		<u>17,880</u>	<u>19,952</u>
Current assets			
Inventories		10,478	14,035
Trade receivables	9	16,251	22,766
Deposits, prepayments and other receivables		9,318	10,135
Cash and cash equivalents		—	13,671
		<u>36,047</u>	<u>60,607</u>
LIABILITIES			
Current liabilities			
Trade payables	10	6,279	11,469
Accruals and other payables		3,024	1,828
Customers' deposits		3,642	3,992
Amount due to ultimate holding company	12	14	1,922
Bills payable		—	9,540
Bank overdraft		1,747	—
Tax payable		6,199	7,562
Deferred income		252	477
Amount due to a related company	12	3,180	3,180
		<u>24,337</u>	<u>39,970</u>
Net current assets		<u>11,710</u>	<u>20,637</u>
Total assets less current liabilities		<u>29,590</u>	<u>40,589</u>
CAPITAL AND RESERVES			
Share capital		6,392	6,392
Reserves		23,198	34,197
Shareholders' fund		<u>29,590</u>	<u>40,589</u>

Approved and authorised for issue by and signed on behalf of the Board of Directors on 13 August 2004.

Hung Yung Lai
Director

Xu Shu Yi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>(Unaudited)</i> <i>Rmb'000</i>	Share premium <i>(Unaudited)</i> <i>Rmb'000</i>	Revenue reserve <i>(Unaudited)</i> <i>Rmb'000</i>	Cumulative translation adjustment <i>(Unaudited)</i> <i>Rmb'000</i>	Retained earnings/ (Accumulated losses) <i>(Unaudited)</i> <i>Rmb'000</i>	Total <i>(Unaudited)</i> <i>Rmb'000</i>
As at 1 January 2004	6,392	59,267	3,613	14	(28,697)	40,589
Loss for six months ended 30 June 2004	—	—	—	—	(10,999)	(10,999)
As at 30 June 2004	<u>6,392</u>	<u>59,267</u>	<u>3,613</u>	<u>14</u>	<u>(39,696)</u>	<u>29,590</u>

	Share capital <i>(Unaudited)</i> <i>Rmb'000</i>	Share premium <i>(Unaudited)</i> <i>Rmb'000</i>	Revenue reserve <i>(Unaudited)</i> <i>Rmb'000</i>	Cumulative translation adjustment <i>(Unaudited)</i> <i>Rmb'000</i>	Retained earnings/ (Accumulated losses) <i>(Unaudited)</i> <i>Rmb'000</i>	Total <i>(Unaudited)</i> <i>Rmb'000</i>
As at 1 January 2003	6,392	59,267	3,546	4	3,064	72,273
Profit appropriation to reserve fund	—	—	94	—	(94)	—
Translation adjustment	—	—	—	4	—	4
Loss for six months ended 30 June 2003	—	—	—	—	(12,226)	(12,226)
As at 30 June 2003	<u>6,392</u>	<u>59,267</u>	<u>3,640</u>	<u>8</u>	<u>(9,256)</u>	<u>60,051</u>

UNAUDITED CONDENSED COMBINED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Net cash outflow from operating activities	(5,095)	(24,147)
Net cash outflow from investing activities	(783)	(2,685)
Net cash outflow from financing activities	(9,540)	(2,990)
Net decrease in cash and cash equivalents	<u>(15,418)</u>	<u>(29,822)</u>
Cash and cash equivalents at beginning of period	13,671	32,782
Effect of foreign exchange differences	—	4
Cash and cash equivalents at end of period/ (Bank overdraft)	<u>(1,747)</u>	<u>2,964</u>
Analysis of balances of Cash and Cash equivalents: Cash and bank/(Bank overdraft)	<u>(1,747)</u>	<u>2,964</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

The results 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 GEM.

The Group principally operates in the People’s Republic of China (the “PRC”) and its business activities are principally transacted in Renminbi (“Rmb”), the results are prepared in Rmb.

All significant intra-group transactions and balances have been eliminated on consolidation.

The principal accounting policies and methods of computation adopted for the preparation of the interim financial statements are same and consistent with those adopted by the Group in its audited annual financial statements for the year ended 31 December 2003.

2. Turnover

Turnover represents revenue from sale of computer software and hardware, and maintenance income. Turnover comprises the following:

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Sales of software	4,202	2,513	6,249	4,743
Sales of hardware	2,371	4,171	2,929	7,416
Maintenance income	517	1,297	586	2,065
	<u>7,090</u>	<u>7,981</u>	<u>9,764</u>	<u>14,224</u>

3. Other operating income

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Others	160	—	3,620	26
Interest income	6	33	23	105
Value added tax refund	136	412	265	889
Income from open up source code	—	7,000	—	7,000
	<u>302</u>	<u>7,445</u>	<u>3,908</u>	<u>8,020</u>

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 value added tax with applicable tax rate of 17% and are entitled to refund of value added tax paid exceeding 3% of the revenues. The value added tax refund of the Group has been accounted for as other operating income.

4. Profit/(Loss) before tax

Profit/(Loss) before tax was determined after charging the following:

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Amortisation of intangible assets	467	166	1,569	380
Depreciation of property, plant & equipment	652	1,082	1,274	1,616
Provision for (written back of) doubtful receivables	835	729	3,252	2,490
Bank interest	40	156	80	279
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. Taxation

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Other PRC taxation (<i>Note a</i>)	—	—	—	3
Business tax	—	—	55	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Hong Kong profits tax has not been provided as the Group had no income assessable for profits tax in Hong Kong for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

PRC enterprise income tax approximately amounting to Rmb55,000 has been provided at the rate of 33% on the estimated assessable profits for the six months ended 30 June 2004 in the PRC (six months ended 30 June 2003: Nil).

There was no significant unprovided deferred taxation for the reported periods.

Note:

(a) Tax paid in respect to interest income of PRC source.

6. Earning/(Loss) per share

The calculation of the Group's basic earning/(loss) per share for the three months and six months ended 30 June 2004 is based on the Group's unaudited combined loss attributable to shareholders of approximately Rmb5,967,000 and loss attributable to shareholders of approximately Rmb10,999,000 (three months and six months ended 30 June 2003: profit attributable to shareholders of approximately Rmb206,000 and loss attributable to shareholders of approximately Rmb12,226,000 respectively) divided by the weighted average number of ordinary shares outstanding for three months and six months ended 30 June 2004 of 603,000,000 shares (three and six months ended 30 June 2003: 603,000,000 shares) in issue respectively.

Diluted loss per share has not been presented as the exercise of share options would have an anti-dilutive effect during the three and six months ended 30 June 2004, as well as 30 June 2003.

No diluted earnings per share has been presented for the three and six months ended 30 June 2004 because the computation of diluted earnings per share does not assume the exercise of share options as the exercise price of the Company's outstanding share options was higher than the average market price of the shares in the Company and the exercise of share options of the Company has an anti-dilutive effect.

7. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (for the six months ended 30 June 2003: Nil).

8. Goodwill

On 16 June 2004, the Group completed the acquisition of 100% interest in 北京世紀興融資訊有限公司(「世紀興融」), subject to an amount of RMB1 million. After the completion of the acquisition, the Group's entitlement to the relevant portion of 世紀興融's revenue and net loss for the period from 1 January 2004 to 16 June 2004 were approximately Rmb410,053 and Rmb45 respectively.

	(Unaudited) 30 June 2004 Rmb'000	(Audited) 31 December 2003 Rmb'000
Net assets acquired:		
Fixed assets	163	—
Cash and cash equivalent	86	—
Trade receivable	242	—
Deposits, prepayments and other receivables	424	—
Trade payables	(24)	—
Accruals and other payables	(158)	—
Tax payable	(5)	—
	<hr/>	<hr/>
	728	—
Goodwill	272	—
	<hr/>	<hr/>
	1,000	—
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	500	—
Consideration payables	500	—
	<hr/>	<hr/>
	1,000	—
	<hr/> <hr/>	<hr/> <hr/>

9. Trade receivables

	As at 30 June 2004 <i>Rmb'000</i>	As at 31 December 2003 <i>Rmb'000</i>
Within 90 days	9,176	10,183
Over 90 days but within 180 days	1,349	3,317
Over 180 days but within 365 days	2,275	1,975
Above 365 days	9,003	18,185
	<u>21,803</u>	<u>33,660</u>
Less: Provision for doubtful receivables	(3,252)	(8,594)
	<u>18,551</u>	<u>25,066</u>
Trade receivables over 12 months	(2,300)	(2,300)
	<u>16,251</u>	<u>22,766</u>

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

10. Trade payables

	As at 30 June 2004 <i>Rmb'000</i>	As at 31 December 2003 <i>Rmb'000</i>
Within 90 days	2,314	8,022
Over 90 days but within 180 days	667	684
Over 180 days but within 365 days	3,032	2,497
Above 365 days	266	266
	<u>6,279</u>	<u>11,469</u>

11. Commitments

As of 30 June 2004, the Group did not have any significant authorised or contracted capital commitments (31 December 2003: Nil).

12. 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 related party transactions during the periods under review:

		(Unaudited)	
		Six months ended	
		30 June	
	Note	2004 Rmb'000	2003 Rmb'000
Discontinuing transactions:			
Rental paid to Hangzhou Singlee Electronics Company Limited for lease of motor vehicles	(i)	—	68
Continuing transactions:			
Rental paid to Sing Lee Pharmaceutical Import & Export Co. Limited for lease of office premises	(ii)	203	242
Income from opening source code to Hangzhou New Dynamics Software Co. Ltd.	(iii)	—	7,000
Total		<u>203</u>	<u>7,242</u>
		(Unaudited)	(Audited)
		As at	As at
		30 June	30 December
	Note	2004 Rmb'000	2003 Rmb'000
Due to Goldcorp Industrial Limited	(iv)	(14)	(1,922)
Due to Sing Lee International Trading Limited	(v)	(3,180)	(3,180)
Due from Hangzhou New Dynamics Software Co., Ltd. (non-current asset)	(iii)	2,300	2,300
		<u>(894)</u>	<u>(2,802)</u>

Notes:

- (i) Hangzhou Singlee Electronics Company Limited 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. Ms Li Kei Ling resigned as an executive director of the Group on 6 January 2004.
- (ii) Sing Lee Pharmaceutical Import & Export Co. Limited 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. Ms Li Kei Ling resigned as an executive director of the Group on 6 January 2004.
- (iii) Hangzhou New Dynamics Software Co. Ltd. is a Sino-foreign equity joint venture registered in the PRC. Mr. Xu Ke Han, the former Vice President and Financial Controller of the Group, has an equity interest and is a director of this company.
- (iv) Goldcorp Industrial Limited is the holding company of the Company and is equally owned by Mr. Hung Yung Lai and Ms. Li Kei Ling. Ms Li Kei Ling resigned as an executive director of the Group on 6 January 2004.
- (v) Sing Lee International Trading Limited is a limited company incorporated in Hong Kong. It is owned by Mr. Hung Yung Lai and Ms. Li Kei Ling. Ms Li Kei Ling resigned as an executive director of the Group on 6 January 2004.
- (vi) The above related party transactions were carried out in the normal course of business.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review and results of operations

For the six months ended 30 June 2004, the Group recorded a total turnover of approximately Rmb9,764,000, representing a decrease of 31% as compared to the same period of last year (for the six months ended 30 June 2003: approximately Rmb14,224,000). Decrease in turnover was primarily attributable to the time from the stage of tender to implementation of two new products of the Group necessary for 6 to 9 months.

Gross loss for the six months ended 30 June 2004 was approximately Rmb181,000, representing an increase of 170% as compared to the same period of last year (for the six months ended 30 June 2003: gross profit approximately Rmb255,000). Decrease in gross profit was primarily attributable to decrease in development cost capitalisation as compared to the same period of last year. In addition, decline in the gross profit margin of some of the Group's products such as POS payment also attributable to the decrease in gross profit margin.

Distribution costs for the six months ended 30 June 2004 was approximately Rmb3,997,000, representing a decrease of 50% as compared to the same period of last year (for the six months ended 30 June 2003 approximately: Rmb7,931,000). Decline in the distribution costs was due to efficiently enhancing the cost efficiency and effectiveness.

General and administrative expenses for the six months ended 30 June 2004 was approximately Rmb10,537,000, representing a decrease of 14% as compared to the same period of last year (for the six months ended 30 June 2003: approximately Rmb12,236,000). Decrease in general and administrative expenses was primarily attributable to decrease in daily operation management expenses.

Other operating income for the six months ended 30 June 2004 was approximately Rmb3,908,000, representing a decrease of 51% as compared to the same period of last year (for the six months ended 30 June 2003: Rmb8,020,000). Such decrease is primarily attributable to Rmb7,000,000 income from opening source code of certain software products in last year.

The Group consequently recorded a loss attributable to shareholders of approximately Rmb5,967,000 and a loss attributable to shareholder of approximately Rmb10,999,000 for the three months and six months ended 30 June 2004 correspondingly, representing an increase of 2,996% and a decrease of 10% as compared to the same period of last year (for the three and six months ended 30 June 2003: a profit attributable to shareholders of approximately Rmb206,000 and a loss attributable to the shareholders of 12,226,000). These were primarily attributable to Rmb7,000,000 income from opening source code of certain software products in last year. Basically, excluding the other operating income, the Group's loss attribute to the shareholders decreased of 26% as compared to the same period of last year.

BUSINESS REVIEW

Banking Business

After determining the Group's course of future development with respect to its banking business, satisfactory responses were made evidently in the first quarter. Moving into the second quarter, preliminary achievements were made by the Group. In tendering projects of headquarter level, the Group succeeded in winning the tender and the contract of Huaxia Bank and Fujian Industrial Bank with respect to assets and liabilities management system, while the Group was also awarded the tender and the contract of China Merchants Bank and Beijing City Commercial Bank with respect to liquidity trading system.

In the project for Beijing City Commercial Bank, in order to pronounce the successful launch of the asset risk management system and trade financing system of MISYS, a new product of the Group, Beijing City Commercial Bank held a signing ceremony on the formal execution of the contract on 12th July, which implied the initial success of the Group in determining the direction of the overall banking business.

In the past thirty years, the banking industry in the PRC has fundamentally established the IT system to support its business operations. The process of the informatisation underwent by the international banking industry revealed that the banking industry in the PRC will soon move to a next stage of construction. The accounting systems, such as the risk management system and assets and liabilities management system, being provided by the Group, will be developed to fulfill the demand for such core products, at the same time by the banking industry in the PRC, facilitating the Group's promotion and development of such products.

Apart from actively developing banking core business, the Group also developed some new peripheral products, such as IT Operation Security Platform for the banking industry. Trial operation are now undergoing at selective sites. This project is also a special project to be implemented by Zhejiang Industrial Bank this year. A lot of attention were also placed by the related leaders. Currently a number of banks have already become the Group's prospective customers.

Securities Business

With respect to the securities business in the PRC, as the market is still relatively depressed, securities companies are unwilling to make further investments, unless there is failure occurring in the system. Although the situation as at to date is still not clear, the Group's products were recognized by many securities firms in the market. After undergoing tests at selective sites, the comments to the Group's products with respect to stability were very positive. Replacement is intended on a massive scale for the online trading product. The Group is well prepared to handle the next batch of customers from the securities industry. According to the forecasts, the security market will be relatively clear in the coming forth quarter, and the Group will conduct promotion on a massive scale for the launch.

Education business

With respect to the education business, the Group has successfully promoted the School-Banking Financial Fees Collecting System in the first quarter. In the second quarter, in order to further expand the on-line applications in the education industry, the Group formally entered into another contract for system management with Zhejiang University in June. This system successfully achieved the integration on the administration of credit system with academic year system, and provided functions such as on-line selection of subjects, inquiries, registration of results by teachers, and real-time management for external programs, thereby facilitating the development of online teaching by the education institutes to a higher level. At the same time, students and teachers were benefited from the convenience in revision and the administration of teaching jobs respectively. It will be another successful move of the Group's involvement in the education industry.

FUTURE OUTLOOK

During the second quarter, the Group has performed a series of restructuring activities to its structure, which substantially completed with operations commenced smoothly as at the end of June, so as to enhance effectiveness and cost efficiency. Improvements were made with respect to cost control and sales efforts over the previous quarter.

In respect of business operations, much efforts were placed in the promotion of new products in the second quarter. Certain contracts were entered into with trial operation commenced at selective sites. The Group believes that it will achieve more significant and remarkable results in the coming third and fourth quarters.

Banks usually conduct and begin their purchases in the third quarter and concentrate in the fourth quarters. Therefore, the sales of POS machines will also increase significantly in the third and fourth quarter. In addition, in respect of wireless POS network transaction platform, the Group has also been included in 2004 State Torch Plan by the Ministry of Science and Technology in the PRC.

Liquidity, financial resources, capital structure and gearing ratio

As at 30 June 2004, the Group had no bank borrowings (31 December 2003: Nil), all represented short-term bank loans repayable within one year.

No interest was capitalized by the Group during the period under review (31 December 2003: Nil).

As at 30 June 2004, the bank overdraft of the Group was denominated in Rmb, US dollars and HK dollars, amounted to approximately Rmb1,747,000 (31 December 2003: Cash and cash equivalents approximately Rmb13,671,000).

The gearing ratio of the Group, based on total liabilities over total assets, as at 30 June 2004, was approximately 45% (31 December 2003: 50%).

ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 16 June 2004, the Group completed the acquisition of 100% interest in 北京世紀興融資訊有限公司 (「世紀興融」), subject to an amount of RMB1 million. After the completion of the acquisition, the Group's entitlement to the relevant portion of 世紀興融's revenue and net loss for the period from 1 January 2004 to 16 June 2004 were approximately RMB410,053 and RMB45 respectively.

Other than the above mentioned, the group had no material acquisitions or disposals of subsidiaries and affiliated companies, or significant investments during the period under review.

SEGMENTAL INFORMATION

No segmental information is presented for the Group as the Group conducts its business within one geographical and business segment.

EMPLOYEE INFORMATION

As at 30 June 2004, the Group had 173 employees, including both PRC and Hong Kong employees. Remuneration and bonus policy are primarily determined by the performance of the individual employees and financial results of the Group. Total staff costs for the reported period were approximately Rmb6 million (30 June 2003: approximately Rmb13 million).

The Group has adopted a share option scheme whereby certain employees of the Group granted options to acquire shares.

CHARGE ON GROUP ASSETS

As at 30 June 2004, 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 "Comparison of Business Objectives with Actual Business Progress" in the section of Management Discussion and Analysis. Other than those disclosed, the Group did not have any future plan for material investments or capital assets.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

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

CONTINGENT LIABILITIES

As at 30 June 2004, the Group did not have any material contingent liabilities (31 December 2003: nil).

PROSPECTS OF NEW PRODUCTS

Please refer to the Business Review in the section of Management Discussion and analysis for a discussion on this.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at 30 June 2004, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly, or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Number of shares held		Percentage of shareholding
		Long position	Short position	
Goldcorp Industrial Limited	Beneficial interest	306,000,000 <i>(note 1)</i>	—	50.7%
Great Song Enterprises Limited	Corporate interest	306,000,000 <i>(notes 1 and 2)</i>	—	50.7%
Mr. Hung Yung Lai	Corporate interest	306,000,000 <i>(notes 2 and 4)</i>	—	50.7%
Ms. Li Kei Ling	Corporate interest	306,000,000 <i>(notes 2 and 3)</i>	—	50.7%
Ms. Iu Pun	Family interest	306,000,000 <i>(note 5)</i>	—	50.7%

Notes:

1. Goldcorp Industrial Limited is a company incorporated in the British Virgin Islands equally owned by Mr. Hung Yung Lai and Great Song Enterprises Limited which in turn is wholly owned by Ms Li Kei Ling.
2. The Shares were held by Goldcorp Industrial Limited.
3. Ms. Li Kei Ling controls more than one third of the voting power of Great Song Enterprises Limited which in turn holds more than one third of the voting power of Goldcorp Industrial Limited. Ms Li Kei Ling is deemed, by virtue of the SFO, 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 SFO, to be interested in the same 306,000,000 shares held by Goldcorp Industrial Limited.
5. These shares are beneficially owned by Goldcorp Industrial Limited as mentioned in Note 4 of above. Mr. Hung Yung Lai is deemed to be interested in the same 306,000,000 shares held by Goldcorp Industrial Limited. Ms. Iu Pun is the wife of Mr. Hung Yung Lai and is deemed to be interested in these shares in which Mr. Hung Yung Lai is deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2004, the directors or chief executives of the Company were not aware of any other person (other than directors or chief executives of the Company) who had an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or any other substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2004, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company, pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Shares in the Company:

Name of directors	Capacity/ Nature of interest	Number of shares held		Percentage of shareholding
		Long position	Short position	
Mr. Hung Yung Lai	Corporate interest	306,000,000 <i>(note 1)</i>	—	50.7%

Shares in associated corporation:

Name of directors	Capacity/ Nature of interest	Number of ordinary shares held in Goldcorp Industrial Limited <i>(note 2)</i>		Percentage of shareholding
		Long position	Short position	
Mr. Hung Yung Lai	Personal interest	1	—	50.7%

Notes:

1. The Shares were held by Goldcorp Industrial Limited. Mr. Hung Yung Lai has 50% interest in Goldcorp Industrial Limited.
2. The entire issued capital of Goldcorp Industrial Limited as of 30 June 2004 composed of 2 ordinary shares. Goldcorp Industrial Limited held 306,000,000 Shares in the Company.

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 any 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 30 June 2004 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.

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.

On 1 June 2004 the Company granted 10,000,000 options to subscribe for shares in the Company under the scheme at an exercise price of HK\$0.14 per share to 2 chief executives of the Group. Shares of the Company were at closing price HK\$0.14 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 outstanding as at 1 January 2004	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share options outstanding as at 30 June 2004
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)	–
Wang Xi	7 September 2002 to 7 April 2012	–	5,000,000	–	–	–	5,000,000
Wang Yumin	7 September 2002 to 7 April 2012	–	5,000,000	–	–	–	5,000,000
Continuous contract employees (other than directors)	7 September 2002 to 7 April 2012	21,350,000	–	–	–	(7,000,000)	14,350,000
		<u>26,830,000</u>	<u>10,000,000</u>	<u>–</u>	<u>–</u>	<u>(9,300,000)</u>	<u>27,530,000</u>

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.

Save as disclosed above, as at 30 June 2004, none of the directors, chief executives, or their respective associates had any interest or short position in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred to in Rules 5.46 to 5.66 of the GEM Listing Rules.

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

There was no purchase, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2004.

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 June 2004 the Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 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 of Rules 5.28 to 5.33 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 members of the Group's audit committee are as follows:

Name	Position in the audit committee	Position in the Board of Directors
Mr. Pao Ping Wing	Chairman	Independent Non-Executive Director
Prof. Pan, Yun He	Member	Independent Non-Executive Director

The audit committee has reviewed and commented in the Company's interim report for the six months ended 30 June 2004.

By Order of the Board
Hung Yung Lai
Chairman

Hong Kong, 11 August 2004