



SING LEE SOFTWARE (GROUP) LIMITED

新利軟件(集團)股份有限公司*

(incorporated in Bermuda with limited liability)

**QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
30 SEPTEMBER 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.

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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 nine months ended 30 September 2004, together with the unaudited comparative figures for the corresponding periods in 2003, as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	2	7,062	4,718	16,826	18,942
Cost of sales		(4,425)	(7,081)	(14,370)	(21,050)
Gross profit/(loss)		2,637	(2,363)	2,456	(2,108)
Distribution costs		(1,019)	(2,619)	(5,016)	(10,551)
General and administrative expenses		(3,028)	(3,716)	(13,565)	(15,952)
Other operating income	3	1,679	514	5,587	8,535
Profit/(loss) from operations		269	(8,184)	(10,538)	(20,076)
Finance costs		(83)	(39)	(220)	(370)
Share of profit of an associate		—	—	—	—
Profit/(loss) before tax		186	(8,223)	(10,758)	(20,446)
Taxation	4	(18)	(406)	(73)	(409)
Profit/(loss) after tax		168	(8,629)	(10,831)	(20,855)
Minority interests		—	—	—	—
Profit/(loss) attributable to shareholders		168	(8,629)	(10,831)	(20,855)
Profit/(loss) per share - Basic	5	Rmb0.03 cents	Rmb(1.43) cents	Rmb(1.80) cents	Rmb(3.46) cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital (unaudited) <i>Rmb'000</i>	Share premium (unaudited) <i>Rmb'000</i>	Capital reserve (unaudited) <i>Rmb'000</i>	Revenue reserve (unaudited) <i>Rmb'000</i>	Cumulative translation adjustment (unaudited) <i>Rmb'000</i>	Retained earnings/ (Accumulated losses) (unaudited) <i>Rmb'000</i>	Total (unaudited) <i>Rmb'000</i>
As at 1 January 2004	6,392	59,267	–	3,613	14	(28,697)	40,589
Loss for 9 months ended 30 September 2004	–	–	–	–	–	(10,831)	(10,831)
As at 30 September 2004	6,392	59,267	–	3,613	14	(39,528)	29,758
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	–	–	6	–	4	–	10
Loss for 9 months ended 30 September 2003	–	–	–	–	–	(20,855)	(20,855)
As at 30 September 2003	6,392	59,267	6	3,640	8	(17,885)	51,428

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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 financial statements are the 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:

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	Rmb’000	Rmb’000	Rmb’000	Rmb’000
Sales of software	4,992	3,039	11,241	7,782
Sales of hardware	1,484	977	4,413	8,392
Maintenance income	586	702	1,172	2,768
	<u>7,062</u>	<u>4,718</u>	<u>16,826</u>	<u>18,942</u>

3. Other operating income

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	Rmb’000	Rmb’000	Rmb’000	Rmb’000
Others	1,156	100	4,776	127
Interest income	3	21	26	126
Value added tax refund	520	393	785	1,282
Income from open up source code	—	—	—	7,000
	<u>1,679</u>	<u>514</u>	<u>5,587</u>	<u>8,535</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. Taxation

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Other PRC taxation (<i>Note a</i>)	—	56	—	59
Business tax	18	350	73	350
	<u>18</u>	<u>406</u>	<u>73</u>	<u>409</u>

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

PRC enterprise income tax has not been provided as the Group had no estimated assessable profits for the three and nine months ended 30 September 2004 (three and nine months ended 30 September 2003: Nil).

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

Note:

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

5. Profit/(loss) per share

The calculation of the Group's basic profit/(loss) per share for the three months and nine months ended 30 September 2004 is based on the Group's unaudited profit/(loss) attributable to shareholders of approximately Rmb168,000 and Rmb(10,831,000) (three months and nine months ended 30 September 2003: loss of approximately Rmb(8,629,000) and Rmb(20,855,000) respectively) divided by the weighted average number of ordinary shares outstanding for three months and nine months ended 30 September 2004 of 603,000,000 shares (three and nine months ended 30 September 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 nine months ended 30 September 2004, and three and nine months ended 30 September 2003.

6. Dividend

The Board does not recommend the payment of dividend for the nine months ended 30 September 2004 (nine months ended 30 September 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review and results of operations

For the three months and nine months ended 30 September, 2004, the profit/(loss) attributable to shareholders of the Group were approximately Rmb168,000 and Rmb (1,831,000). With respect to the net profit in the third quarter, there was mainly due to the revenue from the new products incurring gradually in this quarter. The resources and costs invested in the first and second quarters were used for the promotion, research and testing, etc. of the new products. During this period, they did not contribute much revenue and profit to the Group. As a result, the Group still had loss for the nine months ended 30 September 2004.

BUSINESS REVIEW

Banking Business

Entering into the third quarter, achievements were made with respect to the development of core products provided by the Group for risk monitoring and management of information by the banks. Subsequent to Huaxia Bank, Fujian Industrial Bank and Beijing City Commercial Bank, Shenzhen Commercial Bank also entered into a contract with the Group, and is now in its implementation stage. There are two other major commercial banks which the Group had won tender, and now in the stage for the execution of contracts. Targets for business expansion in the market for the year were accomplished steadily, which also considerably matched with those strategic directions and implementation plans as intended at the beginning of the year. Future development directions and marketing strategies also appeared more optimistic.

With respect to the wired and wireless POS machines for the electronic payment platform, another key business segment of the Group, it has entered into a three party agency and distribution agreement with 中國銀聯商務有限公司 and Verifore. Such contract with 銀聯 will bring along breakthrough in the development of the Group as to the POS machine business. Testing and development had commenced for certain POS models and at certain major and medium sized cities, which is now approaching their completion. Faced with the substantial demand in the PRC market in future, the sales of POS machines will become more satisfactory.

Education Business

On 24 September, the Company successfully held the seminar with the topic of Informatization Infrastructure on Fees Collection for Postsecondary Institutions, and the commissioning ceremony of the School-Banking Financial Fees Collecting System for Zhejiang Finance College. Chief Finance Officers from more than 30 postsecondary institutions and secondary schools within and outside the province, as well as representatives from four national banks and IBM attended the seminar. During the seminar, the School-Banking Financial Fees Collecting System developed by Hangzhou Singlee Software Company Limited received high accreditations. The comprehensive features of such system impressed the guest from postsecondary institutions across the PRC, including Zhejiang University, Zhejiang Education College, Ningbo Engineering College, Zhejiang Teaching University, and Guiyang Medical College. Intentions and demands for the purchase and use of such systems were indicated to the sales officers of the Company. The success of this meeting laid a solid foundation for meeting the sales targets with respect to the education business in the fourth quarter and the coming year accordingly.

FUTURE OUTLOOK

During the past two quarters, more endeavours were made by the Group in terms of development and marketing of core products for risk monitoring and management of information by the banks, in accordance with the existing and potential demand of the financial market in the PRC. Followed by the efforts devoted in the first half of the year, it was evidenced in this quarter that such products have enormous market potential, where the banking industry has to meet with the international standard after accession to the WTO.

At the same time when the Group devoted more efforts to core products and marketing, sound measures were also introduced to cost control internally. Results were initially achieved in the third quarter, with turnaround recorded in results. In the fourth quarter, subject to the completion of core banking products by target customers and the enormous demand for POS machines, the Group will further devote more efforts to sales, and tighten its control over costs, so as to ensure a steady development for the Group.

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.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at 30 September 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 10% 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 Long position	Short position	Percentage of shareholding
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%
Mdm 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. Mdm 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 September 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 10% 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 September 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 (“SFO”) (Chapter 571 of Laws of Hong Kong)) 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 September 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 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 30 September 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 September 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	–	–	–	(11,810,000)	9,540,000
		<u>26,830,000</u>	<u>10,000,000</u>	<u>–</u>	<u>–</u>	<u>(14,110,000)</u>	<u>22,720,000</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 September 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 nine months ended 30 September 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 nine months ended 30 September 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
Mr. Tam Kwok Hing (appointed on 4 October 2004)	Member	Independent Non-Executive Director

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

By Order of the Board
Hung Yung Lai
Chairman

Hong Kong, 15 November 2004