



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 THREE MONTHS ENDED
31 MARCH 2005**

* *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.

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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 months ended 31 March 2005, together with the unaudited comparative figures for the corresponding periods in 2004, as follows:

UNAUDITED COMBINED STATEMENT OF INCOME

	<i>Note</i>	Three months ended 31 March	
		2005	2004
		<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	2	1,744	2,674
Cost of sales		<u>(2,897)</u>	<u>(3,851)</u>
Gross Loss		(1,153)	(1,177)
Distribution costs		(8,606)	(1,738)
General and administrative expenses		(4,629)	(5,585)
Other operating income	3	<u>523</u>	<u>3,606</u>
Loss from operations		(13,865)	(4,894)
Finance costs		<u>(81)</u>	<u>(83)</u>
Loss before tax		(13,946)	(4,977)
Taxation	4	<u>(15)</u>	<u>(55)</u>
Loss after tax		(13,961)	(5,032)
Minority interests		<u>—</u>	<u>—</u>
Loss attributable to shareholders		<u>(13,961)</u>	<u>(5,032)</u>
Loss per share			
- Basic	5	<u><u>Rmb(2.32) cents</u></u>	<u><u>Rmb(0.83) cents</u></u>

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 2005	6,392	59,267	–	3,613	13	(31,045)	38,242
Translation adjustment	–	–	–	–	–	–	–
Loss for the period	–	–	–	–	–	(13,961)	(13,961)
As at 31 March 2005	6,392	59,267	–	3,613	13	(45,004)	24,281
As at 1 January 2004	6,392	59,267	–	3,613	14	(28,697)	40,589
Translation adjustment	–	–	–	–	–	–	–
Loss for the period	–	–	–	–	–	(5,032)	(5,032)
As at 31 March 2004	6,392	59,267	–	3,613	14	(33,729)	35,557

NOTES TO THE COMBINED STATEMENT OF INCOME

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 2004.

2. Turnover

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

	(Unaudited)	
	Three months ended	
	31 March	
	2005	2004
	Rmb'000	Rmb'000
Sales of software	814	2,047
Sales of hardware	568	558
Maintenance income	362	69
	1,744	2,674

3. Other operating income

	(Unaudited)	
	Three months ended	
	31 March	
	2005	2004
	Rmb'000	Rmb'000
Others	168	3,460
Interest income	8	17
Value added tax refund	347	129
	523	3,606

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)	
	Three months ended	
	31 March	
	2005	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>
Business tax (<i>Note a</i>)	<u>15</u>	<u>55</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 months ended 31 March 2005 (three months ended 31 March 2004: Nil).

PRC enterprise income tax has not been provided as the Group had no estimated assessable profits for the three months ended 31 March 2005 (three months ended 31 March 2004: 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. Loss per share

The calculation of the Group's basic loss per share for the three months ended 31 March 2005 is based on the Group's unaudited loss attributable to shareholders of approximately Rmb13,961,000 (three months ended 31 March 2004: loss attributable to shareholders of approximately Rmb5,032,000) divided by the weighted average number of ordinary shares outstanding for three months ended 31 March 2005 of 603,000,000 shares (three months ended 31 March 2004: 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 months ended 31 March 2005 and three months ended 31 March 2004.

6. Dividend

The Board does not recommend the payment of dividend for the three months ended 31 March 2005 (three months ended 31 March 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review and Results of Operations

For the three months ended 31 March 2005, the Group recorded a total turnover of approximately RMB1,744,000 and loss attributable to shareholders of approximately RMB13,961,000. Turnover and loss attributable to shareholders for the same period of last year were approximately RMB2,674,000 and RMB5,032,000 respectively.

Business seasonal fluctuation is the main reasons for the low turnover in first quarter. According to past history of the Group, results for first quarter are always affected by the Chinese New Year holidays. Moreover, the peak season of software purchase normally takes place in the second half of the year, especially in the fourth quarter. This situation is even apparent for last year. As a result, this year's first quarter turnover is worse than that of the same period of last year. The dramatic drop of turnover also lead to relatively huge loss for the first quarter.

With the increase of awareness of our product in PRC and the fact that sales order will normally begin to increase from second quarter, it is expected that the results of next quarter will be much better than this quarter.

BUSINESS REVIEW

Banking Business

The assets and liabilities management system and capital transaction system, the contracts of which were entered into in the previous year, commenced their implementation successively. Entering into the first quarter, the Group commenced negotiations and discussions with a number of banks, namely Bank of Communications, Shanghai Head Office, Zhejiang Commercial Bank, Tianjin Commercial Bank, Wuhan Commercial Bank, and obtained preliminary results.

With respect to electronic payment platform cable and wireless POS machines, technical services being provided to the customers were proactively strengthened, apart from sales of products, so as to prepare for the transformation into a professional POS service company.

“EagleEye Information System Protection Platform” (originally named as server monitoring administration system) commenced trial run at four additional pilot sites, namely Fujian Industrial Bank, Head Office, Hangzhou Huaxia Bank, Industrial and Commercial Bank of China, Zhejiang Branch and Commercial Bank of Lanzhou. Customers that had commenced trial run on the platform amounted to 11 in total.

Securities Business

Although the PRC securities market remained sluggish, the Group successfully entered into a two year maintenance contract with Shenyin Wanguo, and brought steady revenue to the Group.

The “Online Trading System” developed last year commenced operation at Guolian Securities. It is contemplated to jointly develop the second phase of the system for more advanced financial management functions with Guolian Securities. It was also agreed with Guolian Securities to introduce “EagleEye Operation Protection Platform” into the securities industry.

Education Business

With the successful operation of the first pilot test site at Zhejiang University, the Construction of Bank, Zhejiang Branch intended to promote “School-Banking Financial Fees Collection System” as the focus for personal financial management business during this year. Apart from Zhejiang University, customers participating in the cooperation also included Zhejiang Construction College, Zhejiang Commercial College, and Zhejiang Financial College.

“Teaching and Administration” is one of the core products for the education system. During the first quarter, it was promoted at China Mining University and Southern China Polytechnic University. It is currently intended to market the products to potential customers at nearly ten colleges and universities, including Guangdong Foreign Language University and Southwestern China Political and Law University.

During the first quarter, the Group also entered into contract to commence development of “Self Learning Management System” and “Continuous Education Management System” at the Adult Education Institute of Zhejiang University.

Future Outlook

Apart from conducting POS sales and establishing a professional team for the electronic payment platform, the Group is endeavoured to pursue for new value-added business with respect to the POS system. The demand for capital risk management products from the banks will be increasing. Following the turnaround of the securities market in the PRC, the Board of the Group believes that the securities business will resume its profitability. Since the Group successfully tapped into the application software market for the education industry, the Company now offers series of product for the education sector upon expansion of the business. The reputation of the Group’s brand as well as sales and marketing efforts being devoted to the education sector by the Group will be enhanced accordingly.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at 31 March 2005, 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 31 March 2005, the directors of 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 31 March 2005, 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 31 March 2005 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 31 March 2005 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 2005	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 31 March 2005
Cui Jian	7 September 2002 to 7 April 2012	3,180,000	–	–	–	–	3,180,000
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	8,640,000	–	–	–	(360,000)	8,280,000
		<u>21,820,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(10,360,000)</u>	<u>11,460,000</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 31 March 2005, 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 three months ended 31 March 2005.

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 three months ended 31 March 2005 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
Mr. Tam Kwok Hing	Member	Independent Non-Executive Director
Mr. Lo King Man (Appointed on 15 March 2005)	Member	Independent Non-Executive Director

The audit committee has reviewed and commented in the Company's quarter report for the three months ended 31 March 2005.

By Order of the Board
Hung Yung Lai
Chairman

Hong Kong, 12 May 2005