



**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 2003**

*\* 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.**

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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.*



**Charles Chan, Ip & Fung CPA Ltd.**

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500 Hennessy Road  
Causeway Bay, Hong Kong

**REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF  
SING LEE SOFTWARE (GROUP) LIMITED  
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)**

We have reviewed the accompanying combined balance sheet of Sing Lee Software (Group) Limited (the “Company”) and its subsidiaries (collectively, the “Group”) at 30 June 2003, and the related combined statements of income, changes in equity and a condensed combined statement of cash flows of the Group for the six months ended 30 June 2003. These condensed interim financial statements set out on pages 2 to 9 are the responsibility of the Company’s management. Our responsibility is to issue a report on these condensed interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements for the six months ended 30 June 2003 do not give a true and fair view in accordance with International Financial Reporting Standards.

**Charles Chan, Ip & Fung CPA Ltd.**

*Certified Public Accountants*

Hong Kong, 14 August 2003

**Chan Wai Dune, Charles**

Practising Certificate Number P00712

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 2003, together with the unaudited comparative figures for the corresponding periods in 2002, as follows:

## UNAUDITED COMBINED STATEMENT OF INCOME

|  | Note | Three months ended   |                 | Six months ended       |                 |
|--|------|----------------------|-----------------|------------------------|-----------------|
|  |      | 30 June              |                 | 30 June                |                 |
|  |      | 2003                 | 2002            | 2003                   | 2002            |
|  |      | Rmb'000              | Rmb'000         | Rmb'000                | Rmb'000         |
| Turnover                                   | 2    | 7,981                | 14,336          | 14,224                 | 22,707          |
| Cost of sales                              |      | (6,688)              | (10,503)        | (13,969)               | (16,152)        |
| Gross profit                               |      | 1,293                | 3,833           | 255                    | 6,555           |
| Distribution costs                         |      | (2,999)              | (4,954)         | (7,931)                | (8,434)         |
| General and administrative expenses        |      | (5,413)              | (3,863)         | (12,236)               | (9,378)         |
| Other operating income                     | 3    | 7,445                | 2,838           | 8,020                  | 3,305           |
| Profit/(Loss) from operations              |      | 326                  | (2,146)         | (11,892)               | (7,952)         |
| Finance costs                              |      | (120)                | (220)           | (331)                  | (330)           |
| Profit/(Loss) before tax                   | 4    | 206                  | (2,366)         | (12,223)               | (8,282)         |
| Taxation                                   | 5    | —                    | 32              | (3)                    | —               |
| Profit/(Loss) after tax                    |      | 206                  | (2,334)         | (12,226)               | (8,282)         |
| Minority interests                         |      | —                    | —               | —                      | —               |
| Profit/(Loss) attributable to shareholders |      | 206                  | (2,334)         | (12,226)               | (8,282)         |
| Earnings/(Loss) per share                  |      |                      |                 |                        |                 |
| - Basic                                    | 6    | <b>Rmb0.03 cents</b> | Rmb(0.39) cents | <b>Rmb(2.03) cents</b> | Rmb(1.37) cents |
| - Diluted                                  | 6    | N/A                  | N/A             | N/A                    | N/A             |

## CONSOLIDATED BALANCE SHEETS

|  |             | (Unaudited)<br>As at<br><b>30 June<br/>2003</b> | (Audited)<br>As at<br>31 December<br>2002 |
|--|-------------|---|---|
|  | <i>Note</i> | <b>Rmb'000</b>                                  | <b>Rmb'000</b>                            |
| <b>ASSETS</b>                                |             |   |   |
| <b>Non-current assets</b>                    |             |   |   |
| Intangible assets                            |             | 10,586  | 9,229                                     |
| Property, plant and equipment, net           |             | 8,710   | 9,830                                     |
| Amount due from a related company            | 11          | 5,000   | —   |
|  |             | 24,296  | 19,059                                    |
| <b>Current assets</b>                        |             |   |   |
| Inventories                                  |             | 13,582  | 11,280                                    |
| Trade receivables                            | 8           | 49,029  | 44,332                                    |
| Deposits, prepayments and other receivables  |             | 8,524   | 10,276                                    |
| Amount due from a related company            | 11          | 2,000   | —   |
| Cash and cash equivalents                    |             | 2,964   | 32,782                                    |
|  |             | 76,099  | 98,670                                    |
| <b>LIABILITIES</b>                           |             |   |   |
| <b>Current liabilities</b>                   |             |   |   |
| Trade payables                               | 9           | 19,574  | 17,092                                    |
| Accruals and other payables                  |             | 3,277   | 2,244                                     |
| Customers' deposits                          |             | 3,574   | 4,563                                     |
| Amount due to ultimate holding company       | 11          | 14  | 14  |
| Bills payable                                |             | 678   | 1,848                                     |
| Short-term borrowings                        |             | 3,000   | 8,000                                     |
| Tax payable                                  |             | 6,228   | 9,774                                     |
| Deferred income                              |             | 819   | 1,921                                     |
| Amount due to a related company              | 11          | 3,180   | —   |
|  |             | 40,344  | 45,456                                    |
| <b>Net current assets</b>                    |             | <b>35,755</b>                                   | <b>53,214</b>                             |
| <b>Total assets less current liabilities</b> |             | <b>60,051</b>                                   | <b>72,273</b>                             |
| <b>CAPITAL AND RESERVES</b>                  |             |   |   |
| Share capital                                |             | 6,392   | 6,392                                     |
| Reserves                                     |             | 53,659  | 65,881                                    |
| <b>Shareholders' fund</b>                    |             | <b>60,051</b>                                   | <b>72,273</b>                             |

Approved and authorised for issue by and signed on behalf of the Board of Directors on 14 August 2003.

**Hung Yung Lai**  
*Director*

**Li Kei Ling**  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | Share<br>capital<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Share<br>premium<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Capital<br>reserve<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Revenue<br>reserve<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Cumulative<br>translation<br>adjustment<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Retained<br>earnings/<br>(Accumulated<br>losses)<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Total<br><i>(Unaudited)</i><br><i>Rmb'000</i> |
|--|--|--|--|--|---|--|---|
| As at 1 January 2003   | 6,392  | 59,267   | —  | 3,546  | 4   | 3,064  | 72,273  |
| Profit appropriation<br>to reserve fund                      | —  | —  | —  | 94   | —   | (94)   | —   |
| Translation adjustment                                       | —  | —  | —  | —  | 4   | —  | 4   |
| Loss for six months ended<br>30 June 2003                    | —  | —  | —  | —  | —   | (12,226)   | (12,226)                                      |
| As at 30 June 2003   | <u>6,392</u>   | <u>59,267</u>  | <u>—</u>   | <u>3,640</u>   | <u>8</u>  | <u>(9,256)</u>   | <u>60,051</u>                                 |
|  | Share<br>capital<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Share<br>premium<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Capital<br>reserve<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Revenue<br>reserve<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Cumulative<br>translation<br>adjustment<br><i>(Unaudited)</i><br><i>Rmb'000</i> | Retained<br>earnings<br><i>(Unaudited)</i><br><i>Rmb'000</i>                             | Total<br><i>(Unaudited)</i><br><i>Rmb'000</i> |
| As at January 2002   | 6,392  | 59,122   | 3,435  | 4,454  | 5   | 12,276   | 85,684  |
| Dividend   | —  | —  | —  | —  | —   | (3,196)  | (3,196)                                       |
| Translation for distribution                                 | —  | —  | (1,500)  | —  | —   | 1,500  | —   |
| Utilisation for the period                                   | —  | —  | —  | (47)   | —   | —  | (47)  |
| Translation adjustment                                       | —  | —  | —  | —  | 2   | —  | 2   |
| Reverse over-accrued share<br>issuing expenses               | —  | 145  | —  | —  | —   | —  | 145   |
| Reverse over-accrued profit<br>appropriation to reserve fund | —  | —  | —  | (1,350)  | —   | 1,350  | —   |
| Loss for six months ended<br>30 June 2002                    | —  | —  | —  | —  | —   | (8,282)  | (8,282)                                       |
| As at 30 June 2002   | <u>6,392</u>   | <u>59,267</u>  | <u>1,935</u>   | <u>3,057</u>   | <u>7</u>  | <u>3,648</u>   | <u>74,306</u>                                 |
|  | Share<br>capital<br><i>(Audited)</i><br><i>Rmb'000</i>   | Share<br>premium<br><i>(Audited)</i><br><i>Rmb'000</i>   | Capital<br>reserve<br><i>(Audited)</i><br><i>Rmb'000</i>   | Revenue<br>reserve<br><i>(Audited)</i><br><i>Rmb'000</i>   | Cumulative<br>translation<br>adjustment<br><i>(Audited)</i><br><i>Rmb'000</i>   | Retained<br>earnings<br><i>(Audited)</i><br><i>Rmb'000</i>                               | Total<br><i>(Audited)</i><br><i>Rmb'000</i>   |
| As at 1 July 2002  | 6,392  | 59,267   | 1,935  | 3,057  | 7   | 3,648  | 74,306  |
| Profit appropriation<br>to reserve fund                      | —  | —  | —  | 488  | —   | (488)  | —   |
| Transfer for distribution                                    | —  | —  | (1,935)  | —  | —   | 1,935  | —   |
| Utilisation for the period                                   | —  | —  | —  | 1  | —   | —  | 1   |
| Translation adjustment                                       | —  | —  | —  | —  | (3)   | —  | (3)   |
| Loss for six months ended<br>31 December 2002                | —  | —  | —  | —  | —   | (2,031)  | (2,031)                                       |
| As at 31 December 2002                                       | <u>6,392</u>   | <u>59,267</u>  | <u>—</u>   | <u>3,546</u>   | <u>4</u>  | <u>3,064</u>   | <u>72,273</u>                                 |

## UNAUDITED CONDENSED COMBINED CASH FLOW STATEMENT

|  | Six months ended  |                   |
|--|-------------------|-------------------|
|  | 30 June           |                   |
|  | 2003              | 2002              |
|  | Rmb'000           | Rmb'000           |
| Net cash outflow from operating activities         | (24,147)          | (18,296)          |
| Net cash outflow from investing activities         | (2,685)           | (4,013)           |
| Net cash outflow from financing activities         | (2,990)           | (1,196)           |
|  | <u>          </u> | <u>          </u> |
| Net decrease in cash and cash equivalents          | (29,822)          | (23,505)          |
| Cash and cash equivalents at beginning of period   | 32,782            | 58,617            |
| Effect of foreign exchange differences             | 4                 | 2                 |
|  | <u>          </u> | <u>          </u> |
| Cash and cash equivalents at end of period         | <u>2,964</u>      | <u>35,114</u>     |
|  | <u>          </u> | <u>          </u> |
| Analysis of balances of Cash and Cash equivalents: |                   |                   |
| Cash and bank                                      | <u>2,964</u>      | <u>35,114</u>     |
|  | <u>          </u> | <u>          </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 2002.

## 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          |                |
|                    | 2003               | 2002           | 2003             | 2002           |
|                    | <i>Rmb'000</i>     | <i>Rmb'000</i> | <i>Rmb'000</i>   | <i>Rmb'000</i> |
| Sales of software  | 2,513              | 5,889          | 4,743            | 8,988          |
| Sales of hardware  | 4,171              | 7,587          | 7,416            | 11,952         |
| Maintenance income | 1,297              | 860            | 2,065            | 1,767          |
|                    | <u>7,981</u>       | <u>14,336</u>  | <u>14,224</u>    | <u>22,707</u>  |

## 3. Other operating income

|                                    | Three months ended |                | Six months ended |                |
|------------------------------------|--------------------|----------------|------------------|----------------|
|                                    | 30 June            |                | 30 June          |                |
|                                    | 2003               | 2002           | 2003             | 2002           |
|                                    | <i>Rmb'000</i>     | <i>Rmb'000</i> | <i>Rmb'000</i>   | <i>Rmb'000</i> |
| Others                             | —                  | —              | 26               | —              |
| Interest income                    | 33                 | 195            | 105              | 361            |
| Value added tax refund             | 412                | 2,643          | 889              | 2,944          |
| Income from open up<br>source code | 7,000              | —              | 7,000            | —              |
|                                    | <u>7,445</u>       | <u>2,838</u>   | <u>8,020</u>     | <u>3,305</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          |                |
|   | 2003               | 2002           | 2003             | 2002           |
|   | <i>Rmb'000</i>     | <i>Rmb'000</i> | <i>Rmb'000</i>   | <i>Rmb'000</i> |
| Amortisation of intangible assets                       | 166                | 66             | 380              | 89             |
| Depreciation of property,<br>plant & equipment          | 1,082              | 586            | 1,616            | 1,160          |
| Provision for (written back of)<br>doubtful receivables | 729                | (87)           | 2,490            | 864            |
| Interest on bank loans                                  | 156                | 132            | 279              | 234            |
|   | <u>1,933</u>       | <u>691</u>     | <u>4,765</u>     | <u>2,347</u>   |



## 5. Taxation

|                                     | Three months ended |             | Six months ended |          |
|-------------------------------------|--------------------|-------------|------------------|----------|
|                                     | 30 June            |             | 30 June          |          |
|                                     | 2003               | 2002        | 2003             | 2002     |
|                                     | Rmb'000            | Rmb'000     | Rmb'000          | Rmb'000  |
| PRC taxation ( <i>Note a</i> )      | —                  | —           | 3                | —        |
| PRC enterprise<br>income tax refund | —                  | (32)        | —                | —        |
|                                     | <u>—</u>           | <u>(32)</u> | <u>3</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 2003 (six months ended 30 June 2002: Nil).

PRC enterprise income tax has not been provided as the Group had no estimated assessable profits for the six months ended 30 June 2003 (six months ended 30 June 2002: 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. Earnings/(Loss) per share

The calculation of the Group's basic earnings/(loss) per share for the three months and six months ended 30 June 2003 is based on the Group's unaudited combined earnings attributable to shareholders of approximately Rmb206,000 and loss attributable to shareholders of approximately Rmb12,226,000 (three months and six months ended 30 June 2002: loss of approximately Rmb2,334,000 and Rmb8,282,000 respectively) divided by the weighted average number of ordinary shares outstanding for three months and six months ended 30 June 2003 of 603,000,000 shares (three and six months ended 30 June 2002: 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 six months ended 30 June 2003, three and six months ended 30 June 2002.

No diluted earnings per share has been presented for the three months ended 30 June 2003 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

- (a) The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil).
- (b) Final dividend of HK\$0.005 per share for the year ended 31 December 2001 were declared, approved and paid during the six months ended 30 June 2002.

|                                   | Six months ended<br>30 June |                |
|-----------------------------------|-----------------------------|----------------|
|                                   | 2003                        | 2002           |
|                                   | <i>Rmb'000</i>              | <i>Rmb'000</i> |
| Final dividends declared and paid | —                           | 3,196          |

## 8. Trade receivables, net

|  | As at<br>30 June<br>2003<br><i>Rmb'000</i> | As at<br>31 December<br>2002<br><i>Rmb'000</i> |
|--|--|--|
| Within 90 days                           | 13,446                                     | 20,088   |
| Over 90 days but within 180 days         | 5,115                                      | 6,114  |
| Over 180 days but within 365 days        | 15,567                                     | 4,415  |
| Above 365 days                           | 18,355                                     | 16,031   |
|  | <u>52,483</u>                              | <u>46,648</u>                                  |
| Less: Provision for doubtful receivables | <u>(3,454)</u>                             | <u>(2,316)</u>                                 |
|  | <u>49,029</u>                              | <u>44,332</u>                                  |

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

Doubtful receivables provision has been made in accordance to the Group's accounting policy. According to the Board's opinion, no specific provision was considered necessary.

## 9. Trade payables

|                                   | As at<br>30 June<br>2003<br><i>Rmb'000</i> | As at<br>31 December<br>2002<br><i>Rmb'000</i> |
|-----------------------------------|--|--|
| Within 90 days                    | 19,167                                     | 16,665   |
| Over 90 days but within 180 days  | 82   | 376  |
| Over 180 days but within 365 days | 315  | 27   |
| Above 365 days                    | 10   | 24   |
|                                   | <u>19,574</u>                              | <u>17,092</u>                                  |

## 10. Commitments

As of 30 June 2003, the Group did not have any significant authorised or contracted capital commitments (31 December 2002: Nil).

## 11. 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)<br>Six months ended<br>30 June         |  |
|---|-------|--|--|
|   | Note  | 2003<br>Rmb'000                                    | 2002<br>Rmb'000                                      |
| Discontinuing transactions:   |       |  |  |
| Rental paid to Hangzhou Singlee Electronics Company Limited for lease of office premises        | (i)   | —  | 97   |
| Continuing transactions:  |       |  |  |
| Rental paid to Hangzhou Singlee Electronics Company Limited for lease of motor vehicles         | (i)   | 68   | 84   |
| Rental paid to Sing Lee Pharmaceutical Import & Export Co. Limited for lease of office premises | (ii)  | 242  | 171  |
| Income from opening source code to Hangzhou New Dynamics Software Co. Ltd.                      | (iii) | 7,000  | —  |
| <b>Total</b>  |       | <b>7,310</b>                                       | <b>255</b>   |
|   |       | (Unaudited)<br>As at<br>30 June<br>2003<br>Rmb'000 | (Audited)<br>As at<br>31 December<br>2002<br>Rmb'000 |
| Due to Goldcorp Industrial Limited  | (iv)  | (14)   | (14)   |
| Due (to) Sing Lee International Trading Limited   | (v)   | (3,180)  | —  |
| Due from Hangzhou New Dynamics Software Co., Ltd. (current asset)                               | (iii) | 2,000  | —  |
| Due from Hangzhou New Dynamics Software Co., Ltd. (non-current asset)                           | (iii) | 5,000  | —  |
|   |       | <b>3,806</b>                                       | <b>(14)</b>  |

### 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.
- (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.
- (iii) Hangzhou New Dynamics Software Co. Ltd. is a Sino-foreign equity joint venture registered in the PRC. Mr. Xu Ke Han, 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.
- (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 who are also the directors of this company.
- (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 2003, the Group recorded a total turnover of approximately Rmb14,224,000, representing a decrease of 37% as compared to the same period of last year (30 June 2002: approximately Rmb22,707,000). Decrease in turnover was primarily attributable to the prolonged economic downturn and the outbreak of SARS in PRC.

Gross profit for the six months ended 30 June 2003 was approximately Rmb255,000, representing a decrease of 96% as compared to the same period of last year (30 June 2002: approximately Rmb6,555,000). 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.

General and administrative expenses for the six months ended 30 June 2003 was approximately Rmb12,236,000, representing an increase of 30% as compared to the same period of last year (30 June 2002: approximately Rmb9,378,000). Increase in general and administrative expenses was primarily attributable to increase in doubtful debts provision, which is made in accordance to the Company's accounting policy.

Other operating income for the six months ended 30 June 2003 was approximately Rmb8,020,000, representing an increase of 143% as compared to the same period of last year (30 June 2002: Rmb3,305,000). Such increase is primarily attributable to Rmb7,000,000 income from opening source code of certain software products.

The Group consequently recorded a profit attributable to shareholders of approximately Rmb206,000 and a loss attributable to shareholder of approximately Rmb12,226,000 for the three months and six months ended 30 June 2003 correspondingly.

### Business review

#### *In respect of banking business*

Since its reorganization, the banking business of the Group has been continuing smoothly. During the second quarter of 2003, the Group won the Certificated System Provider of Bank of China Head Office. This would create competitive advantage for the Group's POS integration business. Also, the Group signed contracts with clients such as Industry and Commercial Bank of China Hunan Branch and Sichuan Branch. Beyond the POS system, the Group is also participating in new projects emerging from new market, such as Performance Evaluation System of Portfolio Managers for Wenzhou Commercial Banks and Short Message System for Zhejiang Post Office.

#### *In respect of securities business*

The Group is continuing to upgrade and promote the New Generation Platform, which is the new version of the securities trading system. The New Generation Platform is expected to replace existing trading platforms such as Sing Lee 3, All Web, and CSP in the year 2004 with stronger functions and centralized system infrastructure. The Group believes the centralized system solution will be the trend of the securities market in PRC.

### *Other income*

As mentioned in the first quarter report, the Group open up the source code of Sing Lee 3, All Web, and CSP for a strategic partner, Hangzhou New Dynamics Software Co. Ltd., for a consideration of Rmb7 million for the source code usage. The Group retains the ownership of the source code.

The Group believes that the securities market still remains very weak in the lower half year of 2003. Also, the Sing Lee 3, All Web, and CSP decentralized system solutions need high cost of maintenance and updating. According to the prediction of the Directors, the Group believes it is profitable for the Group to open up the source code of the older version of the securities trading system to Hangzhou New Dynamics Software Co. Ltd. Hangzhou New Dynamics Software Co. Ltd will perform maintenance for some of its brokerage clients. Meanwhile, the Group continues to promote the sales of the above mentioned software products.

### *Future outlook*

The Group has positive outlook to the future development of the banking system in PRC. Commercial banks in PRC are undergoing reorganization. So commercial banks are investing intensively on the IT system integration. The Group has already designed a few new systems, testing stage is undergoing, such as the Performance Evaluation System of Portfolio Managers.

As China joins WTO, the software system of the clearinghouse of securities market is going to change in the coming few years. The Group believes it is a good chance for the new product, New Generation Platform. The reason behind this is that all brokerage firms have to change the trading system to the newer version after the clearinghouse changes its software.

### **Liquidity, financial resources, capital structure and gearing ratio**

As at 30 June 2003, the Group had bank borrowings of Rmb3.0 million (31 December 2002: Rmb8.0 million), all represented short-term bank loans repayable within one year. The bank borrowings were unsecured, interest bearing at 5.58% (31 December 2002: from 5.54% to 5.58%) per annum and collectively guaranteed by the Company and one of the subsidiaries of the Group. The Group does not have any committed banking facilities as at 30 June 2003.

No interest was capitalized by the Group during the period under review (31 December 2002: Nil).

As at 30 June 2003, the Group held cash and cash equivalents denominated in Rmb, US dollars and HK dollars, amounted to approximately Rmb3 million (31 December 2002: Rmb32 million).

The gearing ratio of the Group, based on total liabilities over total assets, as at 30 June 2003, was approximately 40% (31 December 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 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 2003, the Group had 220 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 Rmb13 million (30 June 2002: approximately Rmb11 million).

The Group highly encourages employees to receive training and further education. The Group sponsors senior executives for MBA programs and further education.

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

## **PROSPECTS OF NEW PRODUCTS**

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

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

**Objectives up to 30 June 2003  
as stated in the prospectus dated  
30 August 2001**

**Actual business progress up to  
30 June 2003**

### **1. ALLWEB banking solution**

#### **I. Bank CRM solution**

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.

#### **II. Bank financial management system**

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.

#### **III. Bank account manager system**

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.

#### **IV. Bank supervision system**

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.

## **2. ALLWEB securities solution**

- |     |   |  |
|-----|---|--|
| I.  | Brokerage CRM solution<br><br>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. |
| II. | ALLWEB Enterprise Securities Transaction System<br><br>Full launch of the Unix version              | The Unix version is completed. The Group is negotiating for a client for use of the Unix System in the PRC.  |

## **3. ALLWEB electronic financial service platform**

- |    |  |  |
|----|--|--|
| I. | 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. |
|----|--|--|

## **4. Business development & information network**

- |    |   |  |
|----|---|--|
| I. | To upgrade the functions of the Group's internal information network infrastructure | Completion of internal information network infrastructure upgrade. |
|----|---|--|

## **5. Marketing & promotion**

- |     |   |   |
|-----|---|---|
| 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 |   |

## **6. CMM**

- |    |                                      |   |
|----|--------------------------------------|---|
| I. | 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. |
|----|--------------------------------------|---|



## 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<br>as stated<br>in the prospectus<br><i>HK\$'000</i> | Actual amount<br>utilized up to<br>30 June 2003<br><i>HK\$'000</i> |
|--|-------|--|--|
| Research and development of<br>new products and technologies   | (ii)  | 25,000   | 17,499   |
| Sales, marketing and promotion of<br>new products  | (ii)  | 7,500  | 2,863  |
| Expansion of regional offices,<br>implementation of CMM and<br>enhancement of internal<br>information network infrastructure | (iii) | 5,500  | 820  |
| Repayment of bank loans<br>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   |
| Placed with banks  |       | —  | —  |
|  |       | <u>61,900</u>  | <u>61,900</u>  |

- (i) The excess utilization 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.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2003, 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")) 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 5.40 to 5.58 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/<br>Nature of interest | Number of shares held   |                   | Percentage<br>of<br>shareholding |
|-------------------|---------------------------------|-------------------------|-------------------|----------------------------------|
|                   |                                 | Long<br>position        | Short<br>position |                                  |
| Mr. Hung Yung Lai | Corporate interest              | 306,000,000<br>(note 1) | —                 | 50.7%                            |
| Ms. Li Kei Ling   | Corporate interest              | 306,000,000<br>(note 1) | —                 | 50.7%                            |

### Shares in associated corporation:

| Name of directors | Capacity/<br>Nature of interest | Number of ordinary<br>shares held in Goldcorp<br>Industrial Limited (note 2) |                   | Percentage<br>of<br>shareholding |
|-------------------|---------------------------------|--|-------------------|----------------------------------|
|                   |                                 | Long<br>position   | Short<br>position |                                  |
| Mr. Hung Yung Lai | Personal interest               | 1  | —                 | 50%                              |
| Ms Li Kei Ling    | Corporate interest<br>(note 3)  | 1  | —                 | 50%                              |

#### 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 SFO, 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 30 June 2002 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.

## 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 June 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.

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 outstanding as at 1 January 2003 | 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 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 | 47,310,000   | –   | –   | –   | (19,120,000)                                     | 28,190,000   |
|  |                                  | <u>56,590,000</u>  | <u>–</u>  | <u>–</u>  | <u>–</u>  | <u>(22,920,000)</u>                              | <u>33,670,000</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 2003, 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 5.40 to 5.58 of the GEM Listing Rules.

## INTEREST IN SECURITIES AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, 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/<br>Nature of interest | Number of shares held                 |                   | Percentage<br>of<br>shareholding |
|--------------------------------|---------------------------------|---------------------------------------|-------------------|----------------------------------|
|                                |                                 | Long<br>position                      | Short<br>position |                                  |
| Goldcorp Industrial Limited    | Beneficial interest             | 306,000,000<br><i>(note 1)</i>        | —                 | 50.7%                            |
| Great Song Enterprises Limited | Corporate interest              | 306,000,000<br><i>(notes 1 and 2)</i> | —                 | 50.7%                            |
| Mr. Hung Yung Lai              | Corporate interest              | 306,000,000<br><i>(notes 2 and 4)</i> | —                 | 50.7%                            |
| Ms. Li Kei Ling                | Corporate interest              | 306,000,000<br><i>(notes 2 and 3)</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.

Save as disclosed above, as at 30 June 2003, 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.

## **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 2003.

## **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 2003 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 of 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 members of the Group's audit committee are as follows:

| <b>Name</b>         | <b>Position in the audit committee</b> | <b>Position in the Board of Directors</b> |
|---------------------|--|---|
| Prof. Wang, Gui Guo | Chairman                               | Independent Non-Executive Director        |
| Prof. Pan, Yun He   | 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 2003.

## **INTEREST OF SPONSOR**

As notified and updated by Core Pacific - Yamaichi Capital Limited ("CPY"), none of CPY, its directors, employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had an interest in the shares of the Company as at 30 June 2003.

Pursuant to the agreement dated 30 August 2001 entered into between the Company and CPY, CPY received fees for acting as the Company's retained sponsor since listing. The agreement will be terminated, with effect from 16 August 2003, and ICEA Capital Limited ("ICEA") was appointed as sponsor to the Company with effect from 16 August 2003.

Pursuant to an agreement dated 15 July 2003 entered into between the Company and ICEA, ICEA will receive a fee for acting as the Company's sponsor.

By Order of the Board  
**Hung Yung Lai**  
*Chairman*

Hong Kong, 14 August 2003