SJTU SUNWAY

SJTU SUNWAY SOFTWARE INDUSTRY LIMITED

交大銘泰軟件實業有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8148)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2004

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This announcement, for which the directors (the "Directors") of SJTU Sunway Software Industry Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

Summary

- Turnover for the three months ended 31 March 2004 was approximately HK$4,917,000.
- Profit attributable to shareholders for the three months ended 31 March 2004 was approximately HK$165,000.
- The Board does not recommend the payment of an interim dividend for the period under review (2003: Nil).

FIRST QUARTERLY UNAUDITED RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively as the "Group") for the three months ended 31 March 2004, together with the comparative figures for the corresponding period in 2003, as follows:

Consolidated income statement

		Three months ended 31 March	
		2004	2003
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**4,917**	6,693
Cost of sales		**(1,362)**	(2,765)
Gross profit		**3,555**	3,928
Other revenue		**714**	276
Selling expenses		**(1,006)**	(1,798)
Research and development costs		**(484)**	(569)
Administrative expenses		**(2,399)**	(1,161)
Profit from operations		**380**	676
Net finance costs		**(126)**	(42)
Profit from ordinary activities before taxation		**254**	634
Taxation	*4*	**(89)**	(33)
Profit attributable to shareholders		**165**	601
Earnings per share	*6*		
Basic		**0.08 cents**	0.46 cents
Diluted		**N/A**	N/A

Notes:

1. **Reorganisation**

The Company was incorporated in the Cayman Islands on 28 June 2002 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") which was completed on 25 November 2003 to rationalise the group structure in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group.

2. **Basis of presentation**

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions", under which the Company was the holding company of the Group for both years presented, rather than from 25 November 2003. Under these circumstances, the results of the Group for the periods ended 31 March 2004 and 2003 include the results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation/establishment, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

3. **Turnover**

The principal activities of the Group are the development and sale of general software and custom-made solutions. Turnover represents the revenue from custom-made solution contracts and the sales value of goods sold after allowances for goods returned, excludes value added or other sales taxes and is after the deduction of any trade discounts.

The amount of each significant category of revenue recognised in turnover is as follows:

	Three months ended 31 March	
	2004	2003
	HK$'000	*HK$'000*
General software	**679**	4,690
Licensing fee	**501**	937
Custom-made solutions	**2,467**	1,066
Translation services	**1,270**	–
	4,917	6,693

4. **Taxation**

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the period ended 31 March 2004 and 2003.

Taxation in the consolidated income statement represents the provision of PRC income tax for a subsidiary during the period ended 31 March 2004 and 2003.

5. **Dividends**

No dividend has been paid or declared by the Company during the period under review (2003: Nil).

6. **Earnings per share**

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$165,000 (2003: HK$601,000) and the 200,000,000 (2003: 130,000,000) ordinary shares in issue as at 31 March 2004.

(b) *Diluted earnings per share*

There were no potential dilutive ordinary shares in existence during the periods ended 31 March 2004 and 2003.

7. **Reserves**

	Share premium *HK$'000*	**Capital surplus** *HK$'000*	**General reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2003	–	15,090	2,134	14,320	31,544
Profit for the year	–	–	–	8,144	8,144
Issuance of shares for the acquisition of subsidiaries	13,557	–	–	–	13,557
Transfer to reserves	–	–	793	(793)	–
At 31 December 2003	13,557	15,090	2,927	21,671	53,245
At 1 January 2004	13,557	15,090	2,927	21,671	53,245
Premium on placing of shares	29,400	–	–	–	29,400
Capitalization	(1,100)	–	–	–	(1,100)
Issuing expenses for share placing	(11,633)	–	–	–	(11,633)
Profit for the period	–	–	–	165	165
At 31 March 2004	30,224	15,090	2,927	21,836	70,077

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Overall Review

For the three months ended 31 March 2004, the Group recorded a turnover of approximately HK$4,917,000, representing a 26.5% downward adjustment as compared to the same period last year. The general software business sector was the main revenue contributor last year. However, with the Group's strategic business restructuring, the Group focused more on the information localization business sector, leading to a decrease in turnover from General Software business. Thus leading to a drop in the Group's total turnover. Attributable to the continuous improvements in both functionalities and system integration of "Lingoworld", cost of sales for the Group recorded a continuous decrease. As compared with the general software business, gross profit margin from the information localization business is generally higher, substantially lifting the Group's overall gross profit margin of 58.7% to 72.3% during the period under review.

During the period under review, profit attributable to shareholders adjusted to approximately HK$165,000, representing a drop of 72.5% as compared to approximately HK$601,000 last year, which is mainly attributable to the increase in professional fees after listing.

Financial Resources and Liquidity

The Company was successfully listed on GEM on 9 January 2004 by placing of 70,000,000 shares. The proceeds of placing received by the Company, net of related expenses, were approximately HK$18 million. As at 31 March 2004, the Group had bank balances and cash of approximately HK$26 million. Taken into consideration of the current financial resources, the Group shall have adequate capital for its continual operation and development.

Gearing Ratio

As at 31 March 2004, the total asset value of the Group was approximately HK$75.6 million whereas the total liabilities was approximately HK$3.5 million. The gearing ratio of the Group, calculated as total liabilities over total assets, was 4.6% (31 December 2003: 28%). The Directors are of the view that such low gearing ratio reflects an improved net assets position of the Group.

Foreign Exchange Exposure

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Renminbi, the Directors consider the Group has no material foreign exchange exposure.

Acquisition and Disposal of Subsidiaries

On 22 March 2004, the Group entered into an articles of association with 廈門實達巨龍信息技術有限公司 (Xiamen Start Dragon Information Technology Company Limited), a subsidiary of a substantial shareholder of the Company for the establishment of a new subsidiary, 福建多語翻譯服務有限公司 (Fujian Multi Language Translation Service Company Limited) ("Fujian MLTS") whose principal activity is the provision of translation services, consultancy and related business, development of computer software and design of websites. The Group will hold a 75% equity interest in Fujian MLTS and is required to contribute proportionately RMB3.75 million in the registered capital of Fujian MLTS. Details of Fujian MLTS were set out in the Company's announcement dated 22 March 2004.

Pledge of Assets and Contingent Liabilities

As at 31 March 2004, the Group did not have any substantial pledge of assets and contingent liabilities.

Business Review

Regarding the general softwares, the Group has been increasing its investments in both the functionality and quality control of its translation softwares. These include the Yaxin CATS and Yaxin CAT softwares, which are specifically designed for uses by professional translation houses and translators, and the "Oriental Express" and the "Oriental EasyDict", which cater for personal users. The Group's resources allocation to translation softwares not only provides robust software support to "Lingoworld", but it also further increases the Group's competitiveness in the licensing fee business sector.

During the period under review, the Group has reformulated its strategies in custom-made solutions which enabled the Group to demonstrate its competitiveness and extensive experience in translation services, software security and internet applications and to provide comprehensive software solutions for local and overseas corporate clients. This not only initiates better economic efficiency for the Group, but it is also well-received by clients, leading to an outstanding performance, with gross profit margin of about 81.4% during the review period.

After a year's operation in the information localization business, "Lingoworld" has successfully built up its brand name among multi-national and well-recognized PRC corporations. Leveraging on the unique operation model and advanced technical support of "Lingoworld", the Group opened up co-operation channels with prestigious PRC and Hong Kong corporations and institutions, including Dongfeng-Citroen, Kodak, The Chinese University of Hong Kong, First Automobile and Xinhua News Agency, further building up the clientele base of "Lingoworld". Besides corporate clients, the Group has also been focusing on promotion of the unique functions of "Lingoworld" to office software and office software manufacturers for product integration into their hardware systems. The Group has achieved substantial results in this regard with gross profit margin of about 73.6%.

Besides expanding its pool of translators and improving their quality and efficiency, the Group is also planning for overseas expansion. During the period under review, the Group opened up dialogues with some of the financial media in Hong Kong about possible business co-operation. At the same time, the Group has also begun market promotions in Singapore. The Group is also working with three of the Fortune 500 corporations on the possibility of cultivating a client-customer relationship, further demonstrating the Group's recognition among local and overseas corporations in the information localization business.

Prospects

The management of the Group adopts a prudent and positive business planning approach with regard to the Group's future development blueprint. The Group aims to become the leading information localization expert in the Greater China Region. It will strengthen its pace of development of its information localization business with an aim to increasing its revenue contribution to approximately 60% of the total turnover; while contribution from general software will be adjusted from 60% last year to 40% this year.

To keep up with its development in the information localization business, the Group will focus mainly on four major industries this year, namely automobile, financial media, information technology and construction. Besides the possible co-operation with three of the Fortune 500 companies and the financial media, the Group is also planning for possible co-operation with some of the government authorities in the PRC. It is expected that some of the co-operative projects will be finalized in the first half of the year. With continuous growth in our corporate clientele base, it is expected that the number of clients will be increased from approximately 140 to approximately 280 this year.

Besides obtaining new clients, the Group also continuously upgraded the quality of operation of its translation platform. At the same time, the Group is also planning to acquire projects that can create synergy effects to the Group's core business. The Group aims to finalize two of the acquisition plans this year, further building up its pool of translators and the professional capabilities of its "Lingoworld".

Though "Lingoworld" has been in full operation for a relatively short period of time, yet leveraging on its competitive advantages, this business sector has established an important position in the flourishing information localization industry in the PRC. In order to expand its market share, the Group will be making a painstaking effort in promoting its "Oriental" brand name through participating in local and overseas IT exhibitions, further building up the brand name of the "Oriental Translation Platform" and "Oriental" software product series. To achieve this, the Group will enter into strategic alliances and co-operative partnerships with well-known local and overseas IT corporations, industry associations and academic institutes.

The Group's information localization business is still at an initial stage of development. With further input from the management and the stable economic growth in the PRC, immense business opportunities are, therefore, cultivated, further building up the Group's confidence in becoming the leading information localization expert in the Greater China Region.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, none of the Directors had any interest and short position in the shares of the Company ("Shares") or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST

A. Substantial Shareholders

As at 31 March 2004, the following entities had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 10% or more of the Shares:

Name	Capacity	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Futart Industry Company Limited ("Futart")	Beneficial owner	64,355,828 (L)	32.18%
Start Technology Company Limited ("Start Technology")	Interest of a controlled corporation *(note 2)*	64,355,828 (L)	32.18%
Simplex Technology Investment (Hongkong) Co. Limited ("Simplex")	Beneficial owner	22,528,484 (L)	11.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group")	Interest of a controlled corporation *(note 3)*	22,528,484 (L)	11.26%
Shanghai Jiao Tong University	Interest of a controlled corporation *(note 3)*	22,528,484 (L)	11.26%
Hongkong Sunway Technology Development Limited ("HK Sunway")	Beneficial owner	20,157,757 (L)	10.08%

Notes:

1. The letter "L" denotes the entity's interests in the Shares.

2. The interests in the Shares were through Futart, the entire issued share capital of which was beneficially owned by Start Technology, a company whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of Start Technology was owned as to approximately 30.05 per cent. by Leading Value Industrial Limited which was in turn owned as to 50 per cent. by Mr. Sze Wai, Marco, an executive Director and 50 per cent. by Mr. Li Kwong Keung.

3. The interests in the Shares were held through Simplex, the entire issued share capital of which was beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group was owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiaoda Enterprise Management Centre* (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

B. Other persons whose interests are recorded in the register required to be kept under section 336 of the SFO

As at 31 March 2004, save for the entities disclosed in sub-paragraph A above, the following entities/persons had an interest or short position in the Shares and the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Diginet Investment Limited ("Diginet")	Beneficial owner	14,653,812 (L)	7.33%
Optipure Industries Limited ("Optipure")	Interest of a controlled corporation *(note 2)*	14,653,812 (L)	7.33%
Mr. Ko Wing Leung, Stephen ("Mr. Ko")	Interest of a controlled corporation *(note 2)*	14,653,812 (L)	7.33%

Notes:

1. The letter "L" denotes the person's/entity's interests in the Shares.

2. The interests in the Shares were held through Diginet, the entire issued share capital of which was beneficially owned by Optipure, which was in turn beneficially owned by Mr. Ko.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 25 November 2003 whereby the Directors of the Company may at their discretion invite any employee, directors, suppliers, customers, advisers, consultants, joint venture partners, and any shareholders of any members of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity, to take up options to subscribe for Shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 9 January 2004. No options had been granted to any directors or employees under the Scheme up to the date of this report.

SPONSOR'S INTEREST

Pursuant to the agreement dated 31 December 2003 entered into between the Company and Core Pacific – Yamaichi Capital Limited ("CPY Capital"), CPY Capital acts as the Company's on-going sponsor for a period commencing from 9 January 2004 to 31 December 2006 and CPY Capital will receive fees for acting as the Company's continuing sponsor.

At 31 March 2004, as notified and updated by CPY Capital pursuant to Rule 6.35 of the GEM Listing Rules, CPY Capital, its directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

COMPETING INTERESTS

None of the Directors and management and shareholders of the Company (within the meaning of the GEM Listing Rules) has an interest in any business which competes or may compete with the business in which the Company is engaged.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the period between 9 January 2004 (the date on which the Shares first commenced trading on GEM) and 31 March 2004.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from 9 January 2004 (the date on which the Shares first commenced trading on GEM) to 31 March 2004.

AUDIT COMMITTEE

The Company set up an audit committee on 25 November 2003 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Song Jing Sheng and Mr. Wang Tian Ye and Mr. Wang Tian Ye is the chairman of the audit committee. The Group's financial statements for the period ended 31 March 2004 have been reviewed by the audit committee, who are of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

As at the date of this announcement, the directors of the Company are as follows:

Executive directors	Sze Wai, Marco, Chu Chi Shing, Chiu Chi Shun, Clarence, He En Pei, He Zhan Tao, Chen Cheng Ping, Chen Si Gen, Wang Hui Bo, Shang Guan Bu Yan

Independent non-executive directors	Song Jing Sheng and Wang Tian Ye

By order of the Board
Sze Wai, Marco
Chairman

Hong Kong, 14 May 2004

This announcement will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for a minimum period of seven days from the day of its posting.