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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK 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 of the Stock Exchange 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 Stock 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the directors (the "Directors") of SJTU Sunway Software Industry Limited 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, 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*

RESULTS

The board of Directors (the "Board") hereby presents the audited consolidated results of SJTU Sunway Software Industry Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004, together with the comparative figures for the corresponding period in 2003, as follows:

Consolidated income statement

	Note	**2004** **HK$**	2003 *HK$*
Turnover	*4*	**13,949,217**	35,502,319
Cost of sales		**(9,573,605)**	(11,910,108)
Gross profit		**4,375,612**	23,592,211
Other revenue	*5*	**1,092,635**	2,246,769
Selling expenses		**(14,952,792)**	(8,246,410)
Research and development costs	*6*	**(3,416,519)**	(2,545,448)
Administrative expenses		**(12,447,886)**	(6,185,542)
(Loss)/profit from operations		**(25,348,950)**	8,861,580
Net finance costs	*7(a)*	**(639,102)**	(208,037)
Share of profits less losses of an associate		**5,602**	–
(Loss)/profit from ordinary activities before taxation	*7*	**(25,982,450)**	8,653,543
Income tax	*8*	**(1,275)**	(509,068)
(Loss)/profit from ordinary activities after taxation		**(25,983,725)**	8,144,475
Minority interests		**488,000**	–
(Loss)/profit attributable to shareholders		**(25,495,725)**	8,144,475
(Loss)/earnings per share	*10*		
Basic		**(12.82) HK cents**	6.26 HK cents
Diluted		**N/A**	N/A

Notes:

1. **Reorganisation**

SJTU Sunway Softway Industry Limited 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 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 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 year ended 31 December 2003 include the results of the Company and its subsidiaries with effect from 1 January 2003 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 and the state of affairs of the Group as a whole.

3. **Statement of compliance**

The consolidated results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated results also comply with the applicable disclosure provisions of the GEM Listing Rules.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the consolidated results for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operation and financial position.

4. **Turnover**

The principal activities of the Group are provision of information localisation services, custom-made solutions and the development and sales of general software. Turnover represents the revenue from the provision of information localisation services and 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:

	2004	2003
	HK$	*HK$*
Information localisation services	**8,661,921**	4,638,788
General software	**2,946,951**	22,110,418
Custom-made solutions	**1,317,587**	2,817,376
Licensing fee	**1,022,758**	5,935,737
	13,949,217	35,502,319

5. Other revenue

Other revenue mainly represents the value added tax ("VAT") refund.

Pursuant to the relevant approval document issued by the tax authorities in Beijing, a subsidiary of the Group is entitled to a refund of VAT on the sales of self-developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sale of self-developed software. The amount of VAT refund is calculated on a monthly basis and recognsied as other revenue when the refund is approved by the relevant tax authorities.

6. Research and development costs

	2004	2003
	HK$	*HK$*
Staff costs	**1,292,721**	1,554,103
Software quality certification	**–**	73,491
Rental expenses	**949,153**	112,627
Software acquired for development	**2,235,442**	311,132
	4,477,316	2,051,353
Less: Amount capitalised	**(4,477,316)**	(1,356,223)
	–	695,130
Add: Amortisation of intangible assets	**2,202,037**	1,850,318
Impairment of intangible assets	**1,214,482**	–
	3,416,519	2,545,448

7. (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging/ (crediting):

	2004	2003
	HK$	*HK$*
(a) Net finance costs:		
Interest income	**(22,003)**	(340,960)
Exchange losses	**2,183**	6,598
Interest on bank advances and other borrowings repayable within five years	**631,050**	532,417
Bank charges	**27,872**	9,982
	639,102	208,037
(b) Staff costs:		
Salaries, wages and allowances	**7,469,649**	6,218,117
Contributions to retirement schemes	**281,016**	416,817
	7,750,665	6,634,934
Average number of employees during the year	**202**	164

Personnel expenses include directors' remuneration totalling HK$1,951,584 for the year ended 31 December 2004 (2003: HK$620,457).

	2004 *HK$*	2003 *HK$*
(c) Other items:		
Cost of inventories*	**6,228,927**	10,577,808
Auditors' remuneration	**750,000**	450,000
Depreciation	**971,160**	715,688
Amortisation of intangible assets	**2,202,037**	1,850,318
Impairment of intangible assets	**1,214,482**	–
Loss on disposal of fixed assets	**–**	72,611
Operating lease charges in respect of properties	**3,176,183**	1,754,449
Provision for bad and doubtful debts	**5,920,100**	–

* *Cost of inventories includes provision for inventories of HK$1,717,569 for the year ended 31 December 2004 (2003: written back of HK$436,086).*

8. Income tax

Taxation in the consolidated income statement represents:

	2004 *HK$*	2003 *HK$*
Current tax – Income tax in The Peoples' Republic of China ("PRC")		
Tax for the year	**373**	509,068
Deferred tax		
Origination and reversal of temporary differences	**–**	–
Share of an associate's taxation	**902**	–
	1,275	509,068

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 years ended 31 December 2004 and 2003.

The PRC income tax of the Group and share of an associate's taxation represent provisions for the PRC income tax on profits of subsidiaries and an associate operating in the PRC which have been calculated at the prevailing income tax rates ranging from 7.5% to 33% under the relevant PRC income tax rules and regulations applicable to the subsidiaries and the associate.

As foreign investment enterprises in the PRC, two subsidiaries of the Company are granted certain tax relief, under which they are entitled to income tax exemption for first three profit making years and to a 50% relief for PRC income tax to the following three years, after which the subsidiaries' profits are subject to PRC income tax at the rate of 15%.

9. Dividends

No dividend has been paid or declared by the Company since its incorporation.

10. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK$25,495,725 (2003: profit of HK$8,144,475) and the weighted average of 198,849,315 ordinary shares in issue during the year (2003: 130,000,000 ordinary shares in issue and issuable comprising 20,000,000 ordinary shares in issue as at 31 December 2003 and 110,000,000 ordinary shares to be issued pursuant to the capitalisation issue).

(b) Diluted (loss)/earnings per share

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

MOVEMENT IN RESERVES

	Share premium *HK$*	Capital surplus *HK$*	General reserve *HK$*	Retained profits *HK$*	Total *HK$*
At 1 January 2003	–	15,089,717	2,134,002	14,319,588	31,543,307
Profit for the year	–	–	–	8,144,475	8,144,475
Issuance of shares for the acquisition of subsidiaries	13,557,045	–	–	–	13,557,045
Transfer to reserves	–	–	793,117	(793,117)	–
At 31 December 2003	13,557,045	15,089,717	2,927,119	21,670,946	53,244,827
At 1 January 2004	13,557,045	15,089,717	2,927,119	21,670,946	53,244,827
Loss for the year	–	–	–	(25,495,725)	(25,495,725)
Premium arising from the issuance of shares for cash	29,400,000	–	–	–	29,400,000
Shares issuance expenses	(11,633,010)	–	–	–	(11,633,010)
Capitalisation issue	(1,100,000)	–	–	–	(1,100,000)
Transfer to reserves	–	–	–	–	–
At 31 December 2004	30,224,035	15,089,717	2,927,119	(3,824,779)	44,416,092

Included in the figure for the retained earnings is an amount of HK$5,602 (2003: Nil) being the retained earnings attributable to an associate.

SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group mainly operates in the PRC, no geographical segment information is presented.

Business segments

(i) Information localisation services

To provide translation and information localisation services.

(ii) General software

The development and sale of a range of self-developed standardised software products.

(iii) Custom-made solutions

To develop and implement custom-made solutions which are specifically designed and developed for the specific needs and requirements of a particular customer.

(iv) Licensing fee

To grant the right to the customers for making an agreed number of copies of the patented software.

Year ended 31 December 2004

	Information localisation services *HK$*	General software *HK$*	Custom-made solutions *HK$*	Licensing fee *HK$*	Inter-segment elimination *HK$*	Consolidated *HK$*
Revenue from external customers	8,661,921	2,946,951	1,317,587	1,022,758	–	13,949,217
Segment result	(3,942,439)	(12,118,910)	(927,264)	372,384	–	(16,616,229)
Unallocated operating income and expenses						(8,732,721)
Loss from operations						(25,348,950)
Net finance costs						(639,102)
Share of profits less losses of an associate						5,602
Income tax						(1,275)
Minority interests						488,000
Loss attributable to shareholders						(25,495,725)
Depreciation and amortisation for the year	678,000	2,495,197	–	–		
Impairment loss for the year	–	1,214,482	–	–		
Significant non-cash expenses (other than depreciation and amortisation)	141,509	4,483,667	2,832,939	179,554		

Year ended 31 December 2003

	Information localisation services HK$	General software HK$	Custom-made solutions HK$	Licensing fee HK$	Inter-segment elimination HK$	Consolidated HK$
Revenue from external customers	4,638,788	22,110,418	2,817,376	5,935,737	–	35,502,319
Segment result	3,106,250	3,794,947	2,581,526	5,592,187	–	15,074,910
Unallocated operating income and expenses						(6,213,330)
Profit from operations						8,861,580
Net finance costs						(208,037)
Share of profits less losses of an associate						–
Income tax						(509,068)
Profit attributable to shareholders						8,144,475
Depreciation and amortisation for the year	–	2,566,006	–	–		
Impairment loss for the year	–	–	–	–		
Significant non-cash expenses (other than depreciation and amortisation)	–	–	–	–		

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Overall Review

In view of the sluggish general software business in the PRC, the Board is fully supportive of the business restructuring and refocusing on the development of the information localisation business. In line with the business restructuring, the Group gradually terminated further developments in its software development business and custom-made solutions business, causing the relating turnover to drop correspondingly. At the same time, the Group recorded additional expenses as the Group had to provide for adequate provisions for trade receivables aged over 360 days and obsolete inventories in the business segment. In addition, research and development costs and administrative expenses for the year also increased because of the expansion of the information localisation business and the additional professional expenses incurred after the listing of the Company. As a result, the Group's loss attributable to shareholders was approximately HK$25,496,000 for the year ended 31 December 2004, as compared to profit attributable to shareholders of approximately HK$8,144,000 for last year.

Turnover

For the year ended 31 December 2004, the Group's turnover was approximately HK$13,949,000 as compared to approximately HK$35,502,000 for last year. The decrease in turnover was mainly attributable to the Group's business restructuring and the suspension of further developments of its general software business. Revenue from these business segments, which included sales of general software, licensing fee and custom-made solutions, recorded a substantial decrease of 82.9%, to approximately HK$5,287,000. The overall proportion of the general software business was 21.1% of the Group's total turnover this year, as compared with 62.3% last year. On the other hand, revenue of the information localisation business, which was the Group's key focus during the year, increased by 86.7% to approximately HK$8,662,000, accounting for 62.1% of the Group's total turnover.

Gross Profit

For the year ended 31 December 2004, the Group recorded gross profit of approximately HK$4,376,000 as compared to approximately HK$23,592,000 last year. Overall gross profit margin was 31.4% this year as compared with 66.5% last year. Gross profit for the information localisation business was approximately HK$5,489,000 with gross profit margin being 63.4%. For the general software business, with the provision for obsolete stocks of approximately HK$1,718,000 and an increase in cost of sales, it recorded gross loss of HK$2,660,000 and hence, affecting the Group's overall gross profit margin.

Operating costs and administrative expenses

For the year ended 31 December 2004, the Group's operating costs and administrative expenses substantially increased by 81.5%, with selling expenses, research and development costs and administrative expenses having increased by 81.3%, 34.2% and 101.2% respectively.

The sluggish general software business in the PRC caused many sales and distribution agents to undergo business restructuring or to close down, leading to a substantial provision of approximately HK$5,920,000 for trade receivables. Besides, the Group increased its spending in marketing promotions, leading to an increase in selling expenses. With the Group's listing on GEM since January 2004, daily operating costs including professional fees, staff costs and travelling expenses also increased. The establishment of a number of operation branches and subsidiaries during the year also led a prominent increase in the Group's overall administrative expenses.

Financial Resources and Liquidity

As at 31 December 2004, the Group had bank and cash balances of approximately HK$31.1 million (2003: approximately HK$17.2 million). About 99.8% of the total bank and cash balances were denominated in Renminbi ("RMB") with the remainder in Hong Kong dollars.

As at 31 December 2004, the outstanding bank and other loan of the Group amounted to approximately HK$14.6 million (2003: approximately HK$8.5 million). The borrowings, denominated in RMB, are repayable within one year and bearing interest of 6.38% per annum to 24% per annum.

Gearing Ratio

As at 31 December 2004, the total assets of the Group was approximately HK$71.6 million (2003: approximately HK$74.7 million) whereas the total liabilities was approximately HK$23.1 million (2003: approximately HK$21.2 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 32.3% (2003: 28.4%).

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, Disposal and Significant Investment

In May 2004, the Group established Fujian Multi Language Translation Service Company Limited ("Fujian MLTS") in which the Group holds 75% equity interest and contributed proportionately RMB3.75 million to the registered capital of Fujian MLTS. Fujian MLTS is principally engaged in the provision of translation services, consultancy and related business, development of computer software and design of websites. Details of the above transaction were set out in the announcement of the Company dated 22 March 2004.

In June 2004, the Group established Beijing Polypegasus Technology Co., Ltd. ("Beijing Polypegasus") in which the Group holds 35% equity interest and contributed proportionately RMB3.5 million to the registered capital of Beijing Polypegasus. Beijing Polypegasus is principally engaged in the development and sales of computer software.

In August 2004, the Group established Beijing Guoxin Sunway IT Co., Ltd. ("Beijing Guoxin Sunway") in which the Group holds 51% equity interest and contributed proportionately RMB1.02 million to the registered capital of Beijing Gouxin Sunway. Beijing Gouxin Sunway is principally engaged in the provision of multilingual websites building services.

In August 2004, the Group established Shanghai Sunway Century IT Co., Ltd ("Shanghai Sunway Century") in which the Group holds 90% equity interest and contributed proportionately RMB4.5 million to the registered capital of Shanghai Sunway Century. Shanghai Sunway Century is principally engaged in the provision of software localisation services.

Other than disclosed above, as at 31 December 2004, the Group did not have any significant investments.

Future Significant Investment Plans and Expected Capital Sources

The details for estimated capital sources of future significant investment plans or expenditure scheme were respectively included in the section headed "Business Objective" of the prospectus of the Company dated 30 December 2003. As at 31 December 2004, an investment funds of approximately HK$9.9 million was set aside for future investment purpose. Save as disclosed therein, there was no other future significant investment plan as at 31 December 2004.

Pledge of Assets and Contingent Liabilities

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

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2004.

Business Review

Serious software piracy and free internet downloading have brought the whole software market to a standstill. Coupled with the longer receivable period for software business, which affects both the cash flow and developments of other businesses of the Group, the Group has decided to curb all further development projects for general software and information security software and turn its focus to customer-oriented information localisation business. Riding on the higher gross profit margin generated by the information localisation business and the Group's experience in software developments and its pool of technical expertise, the Group, is confident that the market potential for the information localisation business will be much better than that of the general software business, and will generate more stable returns for the Group. During the year under review, revenue from the information localisation business segment increased over 86% and became the Group's major source of income, accounting for approximately 62.1% of the total turnover.

Leveraging on its rich experience in software development and outstanding technical expertise, the Group successfully incorporated Yaxin CAT into "Lingoworld" to further strengthen its functionality. The Group has also started research on the new generation translation engines. Additionally, the Group has completed the development of SCAT on the CATS and Lingoworld platform and testing is underway. New breakthrough has also been achieved with development of UNCODE-based SCAT, allowing SCAT to breakthrough language limitations. With regard to research and development ("R&D"), the Group also achieved breakthrough in information localisation in terms of quality, efficiency, volume and stability.

The Group has started business co-operation with prestigious PRC, Hong Kong and internationally renowned corporations and institutions, including Dongfeng-Citroen, Kodak, Hewlett Packard, First Automobile, Xinhua News Agency, Toshiba Group and Caterpillar Group. The Group also serves a wide array of industries, including automobile, information technology, energy, machinery and construction, providing them with high standard information localisation services of recognised quality.

To sharpen its competitive edges in the information localisation industry, during the year under review, the Group started the research of multi-lingual websites and received positive response and recognition from local governments of major bi-lingual cities in the PRC, including Fuzhou and Chongqing.

Regarding the overseas market, the Group has been actively exploring them and Singapore has been chosen as its overseas headquarters. At the same time, the Group has started to explore the possibility of becoming the service partner of overseas translation agency, which will enable it to win contracts from overseas customers and increase its profit margin.

Employee Information

As at 31 December 2004, the Group employed 202 staff (2003: 150 staff). The staff cost (including directors' remuneration) was approximately HK$7,751,000 for the year under review (2003: approximately HK$6,635,000). The Directors received remuneration of approximately HK$1,952,000 during the year ended 31 December 2004 (2003: approximately HK$620,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

The Group provides benefits in accordance with the relevant rules and regulations in the PRC and Hong Kong including contributions to society security scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. The Group also provides training to staff regularly.

Prospects

The Group is confident that its efforts to strengthen and expand its information localisation business will see the business segment flourish in the future. The PRC's accession to the World Trade Organisation, the 2008 Beijing Olympic Games and 2010 Shanghai Expo will bring immense business opportunities to the Group. With more and more Chinese enterprises seeking to internationalise and multi-national corporations accelerating global business developments, the Group is presented with abundant business opportunities ahead. According to Allied Business Intelligence, by 2005, the translation market is expected to expand to US$20 billion, and by 2008, it will value over US$25 billion, with the PRC market accounting for approximately 9%. The Group is highly confident that the strategic business restructuring will enable the Group to focus on its information localisation business, hence more effectively allocating its resources for tapping into the promising information localisation industry.

Looking ahead, besides the automobile and machinery industries, the Group is also planning to explore the information technology and finance sectors. As more and more international corporations are moving their R&D departments or research centres to the PRC, information, as well as product and technical exchanges are expected to intensify. This will provide opportunities for the Group to achieve word processing volume of up to 10 million words per annum. The finance sector will also be the Group's next target. The slow development of China second tier market has prompted enterprises to raise funds from overseas, generating high demand for financial-related and legal-related language processing.

To grasp the opportunities ahead, the Group will further expand its information localisation business in order to increase its contribution to the Group's total turnover. Additionally, riding on its experience and professional expertise in translation, the Group will allocate more resources to improve the quality, efficiency and volume of "Lingoworld" to increase the competitiveness of their services. By providing translation services with regional characteristics, the Group sees further development of the business segment.

With regard to bi-lingual businesses, after a series of testing and trial runs, the Group will conduct practical tests, to develop typical projects and application solutions. The Group has identified Sichuen News as its test case and started related arrangements. Initial testing is expected to be completed by end of June 2005 and applications will be extended after October 2005. The Group plans to launch extensive marketing programmes for the business application in January 2006. The Group will also step up the R&D of multi-lingual websites, which are expected to become one of the major growth drivers of the Group.

Through implementing a series of market promotion programmes, the Group expects to increase recognition of its products and services in both the local and international markets, hence building up an extensive clientele to support its future growth. In the PRC market, the Group plans to expand its business to areas outside Shanghai, Fuzhou, Changchun and Wuhan, and business in Chongqing and Xian has formally started. The Group will also actively improve its web-based market strategy and is highly confident that the business proportion of online sales and services will increase within three years.

With the smooth implementation of the above programmes, the management strongly believes the business foundation of the Group will be further enhanced to achieve even better results.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as stated in the Company's prospectus dated 30 December 2003 (the "Prospectus") with the Group's actual business progress up to 31 December 2004 is set out below:

	Business objectives up to 31 December 2004 as stated in the Prospectus	**Actual business progress up to 31 December 2004**
I. Enhancement of existing products & services and development of new products & services		
(1) Translation software (information localisation)		
➢ Oriental Express	Continue to expand vocabulary database of the software and enhance its translation quality by leveraging on the resources of "Lingoworld"	Successfully leveraged the accumulated database of "Lingoworld" to enhance the translation quality of "Oriental Express" in relation to automobile, media, energy, financial and information technology industries
	To launch "Oriental Express 2005" for ordinary users and to launch professional translation tools for the petroleum and automobile industries	Postponed to next year.
➢ Yaxin CAT, Yaxin CATS and Yaxin SCAT	To introduce CAR (Computer aided reading) which make use of language material system to attract more users	Introduced to some of the existing customers
	Promote the application of CAT in tribal languages translation which can effectively support tens of tribal languages, translate law and regulatory policies in order to enter the governmental market	Completed R&D of CATS and Lingoworld's SCAT and started related testing. Developed UNCODE-based SCAT, allowing SCAT to breakthrough language limitations.
➢ Lingoworld	To establish five translation centres throughout the PRC with targeted productivity of 3,000,000 words per day for each centre. To establish a bilingual (English-Chinese or Chinese-English) translation centre in Singapore	Established translation centres in Changchun, Shanghai, Fuzhou and Wuhan with productivity of 500,000 words per day. Discussion began relating to the establishment of a bilingual translation centre in Singapore
➢ Translation services sales channel	Continue to recruit additional sales agencies in the PRC and conduct feasibility on establishing sales points in Singapore and Korea	Continue to identify competent agents. Began to study the feasibility of establishing sales agencies in Beijing, Tianjin and Lianyun Port. To identify new sales points in Singapore and discussed with related parties for the feasibility on establishing sales points in Singapore.

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
(2) Information Security Software		
➢ Oriental Guard for PC	To launch "Oriental Guard 4.0" with the promotion of standardisation and to develop software which is compatible with other software developers	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
➢ Oriental Guard for enterprise version	To introduce "Oriental Guard 3.5" for large sized enterprises, gateway anti-virus products, network version products with data-protective functions and " Linux version 2.0"	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
	To launch "Oriental Guard 4.0" targeting SMEs with data protection function, "Linux version 3.0" and information security products for Windows CE operating system	
➢ Information solutions and services	To roll out anti-virus solution services and data security solution targeting large sized enterprises	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
(3) General software		
➢ Multimedia tools	To enhance the Internet based value-added application for the existing products	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
	To develop interactive entertainment solution for broadcasting over the Internet	
➢ Internet application	To launch digital entertainment platform based on digital magazine and " Web King", integrating resources of online-music, magazines and games	Developments on hold due to the changes in the operation environment. Please refer to the note below for details
	To increase the number of digital entertainment platform users more than 300,000 and become the largest domestic supplier of the online entertainment service via digital magazine subscription, digital music downloading and digital game development and application etc.	

	Business objectives up to 31 December 2004 as stated in the Prospectus	Actual business progress up to 31 December 2004
II. Increase Market Coverage		
➢ Increase market coverage in the PRC	To establish sales offices in certain major cities and continue to explore the other regions e.g. Shanghai, Guangzhou, Wuhan, Nanjing, Hangzhou, Jinan, Zhengzhou Continue to establish sales office or liaison office in developing cities e.g. Harbin, Kunming, Urumugi, Chongqing	Branches has been set up in Shanghai, Changchun, Wuhan. Plan to expand business outside the above said areas, and business has already been rolled out in Chongqing and Xian
➢ Increase coverage in overseas market	To establish marketing and sales channels in Europe, United States and Russia	The Group started to explore the possibility of becoming the service partner of overseas translation agencies, which will enable the capturing of high profit margin Chinese language related business
III. Promote the Company's brand name		
➢ Marketing and promotion activities	To launch marketing and sales activities to promote the Group's information localisation and information security services and strengthen the corporate image and brandname in overseas countries	Launched 4 activities To inform the public: a "re-branding" press conference was held to announce the shift of emphasis on to the information localisation business As a player in the translation industry: organised translation seminar at inauguration of the Shanghai Institution which raised the corporation's industry standing As an instrumental member of the industry, the Group gained attention at the First Translation Achievement Fair of China
IV Potential acquisition and strategic alliances	To seek potential acquisition or investment in various translation companies To seek potential cooperation with foreign translation association	Negotiating with target companies

Note:

As a result of the sluggish market condition for the general software business, coupled with the longer receivable period for software business, the Group has decided to curb all further development projects for general software and information security software and turn the focus to expand information localisation business.

USE OF PROCEEDS

The net proceeds for issue of new shares on 9 January 2004 received by the Company was approximately HK$17.8 million. During the period between the Latest Practicable Date ("LPD") as defined in the Prospectus (being 23 December 2003) and 31 December 2004, the net proceeds for issue of new shares had been applied as follows:

	Planned use of proceeds as stated in the Prospectus from the LPD to 31 December 2004 *(HK$'000)*	**Actual use of proceeds from the LPD to 31 December 2004** *(HK$'000)*
Improvement in research and development of existing and new products	2,800	2,090
Increase market coverage in the PRC and overseas	2,900	1,600
Promotion of the Group's brand name	4,200	3,700
Potential acquisition and strategic alliances	4,000	–
Total	13,900	7,390

Notes:

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market:

1. Due to the adjustments in business progress, the Group has not yet established overseas sales channels therefore proceeds applied in this area is less than expected.

2. An amount of HK$3 million from the net proceeds is reserved as general working capital of the Group of which HK$1 million has been utilised during the year under review.

3. The remaining net proceeds as at 31 December 2004 was approximately HK$9.4 million which has been placed as interest bearing deposits in banks in the PRC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, none of the Directors and chief executives of the Company had any interest or short position in any shares or 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:–

(a) recorded in the register required to be kept under section 352 of SFO; or

(b) otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

A. Substantial Shareholders

So far as is known to the Directors, as at 31 December 2004, the following entities had an interest or short position in the shares of the Company ("Shares") or underlying Shares 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 interest in the Shares is held 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 25.05% by Leading Value Industrial Limited which is in turn owned as to 100% by Mr. Sze Wai, Marco, an executive Director.

3. The interests in the Shares is held through Simplex, the entire issued share capital of which is beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group is 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 December 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. As at 31 December 2004, no options had been granted to any directors or employees under the Scheme.

On 17 January 2005, options entitling the holders thereof to subscribe for an aggregate of 7,500,000 Shares were granted to directors, employees, technical consultants, initial management shareholders and a substantial shareholder of the Company.

COMPLIANCE ADVISER'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 compliance adviser for a period commencing from 9 January 2004 to 31 December 2006 and CPY Capital will receive fees for acting as the Company's compliance adviser.

At 31 December 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 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 5.34 to 5.45 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 December 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 December 2004.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 25 November 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The Committee has three members comprising three independent non-executive directors, namely Mr. Wang Tian Ye, Mr. Song Sing Sheng and Mr. Ho Chen-yu. Mr. Wang Tian Ye is the chairman of the Committee. Mr. Ho Chen-yu was appointed as a member of the Committee with effective from 28 September 2004.

During the year 2004, the audit committee met two times, reviewed the Group's financial statements for the year ended 31 December 2003 and the six months ended 30 June 2004. The committee is of the view that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

The Group's financial statements for the year ended 31 December 2004 have been reviewed by the Committee. The Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and disclosures have been fully made.

By order of the Board
Sze Wai, Marco
Chairman

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

Executive directors	Sze Wai, Marco, Chu Chi Shing, He En Pei, He Zhan Tao, Chen Si Gen, Wang Hui Bo and Shang Guan Bu Yan
Independent non-executive directors	Song Jing Sheng, Wang Tian Ye and Ho Chen-yu

Hong Kong, 23 March 2005

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.