



# **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)

## **THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“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.**

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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*

## THIRD 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, the “Group”) for the nine months and three months ended 30 September 2006, together with the comparative figures for the corresponding periods in 2005, as follows:

### Condensed consolidated income statement

		Nine months ended 30 September		Three months ended 30 September	
	Note	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	2	675	3,005	301	1,299
Cost of sales		<u>(639)</u>	<u>(1,348)</u>	<u>(296)</u>	<u>(671)</u>
Gross profit		36	1,657	5	628
Other revenue		–	64	–	3
Selling expenses		(338)	(3,953)	(17)	(1,283)
Research and development costs		(940)	(1,737)	(313)	(482)
Administrative expenses		<u>(3,006)</u>	<u>(10,704)</u>	<u>(757)</u>	<u>(2,775)</u>
Loss from operations		(4,248)	(14,673)	(1,082)	(3,909)
Net finance costs		(223)	(1,237)	–	(826)
Share of loss of an associate		<u>–</u>	<u>(552)</u>	<u>–</u>	<u>(199)</u>
Loss from ordinary activities before taxation		(4,471)	(16,462)	(1,082)	(4,934)
Taxation	3	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss for the period		<u><u>(4,471)</u></u>	<u><u>(16,462)</u></u>	<u><u>(1,082)</u></u>	<u><u>(4,934)</u></u>
Attributable to:					
Equity holders of the parent		(4,449)	(16,169)	(1,083)	(4,829)
Minority interests		<u>(22)</u>	<u>(293)</u>	<u>1</u>	<u>(105)</u>
		<u><u>(4,471)</u></u>	<u><u>(16,462)</u></u>	<u><u>(1,082)</u></u>	<u><u>(4,934)</u></u>
Loss per share	5				
Basic (cents)		<u><u>(2.23)</u></u>	<u><u>(8.08)</u></u>	<u><u>(0.54)</u></u>	<u><u>(2.41)</u></u>
Diluted (cents)		<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

## Condensed statement of changes in equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital surplus <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interest <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	2,000	30,224	15,090	2,927	–	(3,825)	46,416	2,087	48,503
Loss for the period	–	–	–	–	–	(38,372)	(38,372)	(1,087)	(39,459)
Share based payment recognised	–	–	–	–	3,282	–	3,282	–	3,282
At 31 December 2005	<u>2,000</u>	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>3,282</u>	<u>(42,197)</u>	<u>11,326</u>	<u>1,000</u>	<u>12,326</u>
At 1 January 2006	2,000	30,224	15,090	2,927	3,282	(42,197)	11,326	1,000	12,326
Loss for the period	–	–	–	–	–	(4,449)	(4,449)	(22)	(4,471)
At 30 September 2006 (Unaudited)	<u>2,000</u>	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>3,282</u>	<u>(46,646)</u>	<u>6,877</u>	<u>978</u>	<u>7,855</u>

Notes:

## 1. BASIS OF PREPARATION

The Group's unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

## 2. TURNOVER AND SEGMENT INFORMATION

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

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.

The following table presents revenue and results information for the Group's business segment:

	Nine months ended		Three months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Information localization services	675	2,999	301	1,299
General software	—	6	—	—
	<u>675</u>	<u>3,005</u>	<u>301</u>	<u>1,299</u>

## 3. 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 30 September 2006 and the period ended 30 September 2005.

## 4. DIVIDENDS

No dividend has been paid or declared by the Company for the period ended 30 September 2006 (2005: Nil).

## 5. LOSS PER SHARE

### (a) *Basic loss per share*

The calculation of basic loss per share for the nine months and three months ended 30 September 2006 were based on the net loss attributable to equity holders of the parent of HK\$4,449,000 and HK\$1,083,000 respectively (2005: net loss attributable to equity holders of HK\$16,169,000 and HK\$4,829,000 respectively) over the weighted average number of ordinary shares in issue of 200,000,000 for the nine months and three months ended 30 September 2006 (2005: 200,000,000).

### (b) *Diluted loss per share*

There were no potential dilutive ordinary shares in existence during the period ended 30 September 2006 and the period ended 30 September 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall Review

For the nine months ended 30 September 2006, the Group reported a turnover of approximately HK\$675,000, as compared with HK\$3,005,000 for the same period last year. Loss attributable to equity holders of the parent was approximately HK\$4,449,000 as compared with HK\$16,169,000 for the corresponding period in 2005.

The management has put stringent measures to reduce the operating costs and looks for financing and operating plans to improve the current financial and operating status of the Group.

### *Financial Resource and Liquidity*

As at 30 September 2006, the Group had cash and bank balances of approximately HK\$241,000 and a short term bank loan of approximately HK\$13,644,000. The borrowings are repayable within one year and interest bearing at prevailing market rates.

### *Gearing Ratio*

As at 30 September 2006, the total asset value of the Group was approximately HK\$49,989,000 whereas the total liabilities were approximately HK\$42,134,000. The gearing ratio of the Group, calculated as total liabilities over total assets, was 84.3% (31 December 2005: 76.1%). The Directors are of the view that the Group maintained a reasonable gearing ratio.

### *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*

No such activities are carried out for the three months ended 30 September 2006.

### *Pledge of Assets and Contingent Liabilities*

As at 30 September 2006, the Group did not have any substantial pledge of assets and contingent liabilities.

## **DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES**

As at 30 September 2006, an investment funds in an aggregate amount of approximately HK\$6,427,000 were held in custody by an independent third party not connected with the Directors, the chief executives, management shareholder or substantial shareholders of the Company and its subsidiaries or their respective associates.

The investment funds is unsecured and repayable on demand. The principal amount of the investment funds bears no interest. The balances of the investment funds as at 30 September 2006 represented approximately 12.9% exceeding 8% of the Group's total assets as at 30 September 2006 and represented approximately 23.3%, exceeding 8% of the Company's market capitalisation as at 30 September 2006. These balances give rise to disclosure obligations on the part of the Group pursuant to Rule 17.15 of the GEM Listing Rules.

## **BUSINESS REVIEW AND PROSPECTS**

In view of the significant decrease in translation works handled by the Group compared with the corresponding period last year, the Group has decided to rationalize its business by focusing on providing professional translation services to more established customers. These customers usually place new orders through bidding process with great emphasis on pricing. However, we faced major difficulties in lowering cost prior to the establishment of our comprehensive core-operating platform, which undermined our business performance.

During the period under review, the Group has focused on the information localization business that offers a higher profit margin and greater market potential so as to diversify the Group's business and develop more profitable segments.

On the back of the globalization of various industries, the quicker penetration of multinational companies into markets around the world and the rapid opening of the PRC market, an enormous translation market with billions of potential revenues is in place. In addition as more and more large scale international exhibitions like the Beijing 2008 Olympic Games and Shanghai World Exhibition are coming to the PRC, its translation sector is presented with an unprecedented opportunity. We remain optimistic towards the future of our information localization business, and will capitalize on our resources and strengthen our competitive edges to prepare ourselves for the future opportunities emerged in the information localisation market.

Looking forward, the Group will focus on exploring the automobile, information technology and financial sectors, which have higher development potential.

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

As at 30 September 2006, the interests and short positions of the Directors or the chief executive of the Company has any in the shares of the Company ("Shares"), 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 the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

<b>Name of Directors</b>	<b>Nature of Interest</b>	<b>Number and class of securities</b> <i>(Note 1)</i>
Chan Si Gen	Beneficial interest	1,000,000 shares (L) <i>(Note 2)</i>
Shang Guan Bu Yan	Beneficial interest	1,000,000 shares (L) <i>(Note 2)</i>
Sze Wai, Marco	Beneficial interest	1,500,000 shares (L) <i>(Note 2)</i>
Wang Tian Ye	Beneficial interest	200,000 shares (L) <i>(Note 2)</i>

### *Notes:*

1. The letter "L" represents the interests in the share and underlying shares of the Company.
2. These shares represent the respective number of shares which would be allotted and issued upon exercise in full of the options granted to them under the share option scheme of the Company granted on 10 October 2005 which the exercise price is HK\$0.14. These options have no vesting condition and exercisable for a period of ten years.

## **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST IN THE COMPANY**

### **Substantial Shareholders**

As at 30 September 2006, the following persons, other than a Director or chief executive of the Company, 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Chu Yuet Wah	Beneficial owner and interest of a controlled corporation <i>(Note 2)</i>	65,975,828 (L)	32.99%
Kingston Finance Limited	Beneficial owner	64,355,828 (L)	32.18%
Ma Siu Fong	Interest of a controlled corporation	64,355,828 (L)	32.18%
Futart Industry Company Limited (“Futart”)	Beneficial owner	64,355,828 (L)	32.18%
FinTronics Holdings Company Limited (“FinTronics”)	Interest of a controlled corporation <i>(Note 3)</i>	64,355,828 (L)	32.18%
Simplex Technology Investment (Hongkong) Co., Limited (“Simplex”)	Beneficial owner	22,528,484 (L) <i>(Note 4)</i>	11.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited (“Jiaoda Industrial Group”)	Interest of a controlled corporation <i>(Note 4)</i>	22,528,484 (L) <i>(Note 4)</i>	11.26%
Shanghai Jiao Tong University	Interest of a controlled corporation <i>(Note 4)</i>	22,528,484 (L) <i>(Note 4)</i>	11.26%
Hong Kong 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. 1,620,000 Shares are beneficially owned by Chu Yuet Wah. The interests in 64,355,828 Shares are held through Kingston Finance Limited, the entire issued capital of which is owned by Chu Yuet Wah as to 51% and Ma Siu Fong as to 49%.

3. The interests in the Shares is held through Futart, the entire issued share capital of which was beneficially owned by Fintronics, a company whose shares are listed on the Main Board of the Stock Exchange. Fintronics was owned as to approximately 25.05 per cent by Leading Value Industrial Limited which was in turn owned by Mr. Sze Wai, Marco, an executive Director.
4. 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.

## 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 employees, directors, suppliers, customers, advisers, consultants, joint venture partners, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any member of the Group or any invested entities, 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. 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. The fair value of options granted on 17 January 2005 is determined to be HK\$0.2442 at the grant date. On 10 October 2005, 12,800,000 share options were granted to directors, employees and consultants of the Company. The fair value of options granted on 10 October 2005 is determined to be HK\$0.1133 at the grant date.

The valuation was based on a Binomial Model with the following data and assumptions:

	<b>17 January 2005</b>	<b>10 October 2005</b>
Share Price at the Grant Date	HK\$0.445	HK\$0.140
Exercise Price	HK\$0.45	HK\$0.140
Expected Volatility	75% per annum	75% per annum
Option Life	10 years	10 years
Expected Dividend Yield	0% per annum	0% per annum
Risk-free Interest Rate	2.89% per annum	4.13% per annum

In respect of the share options granted on 17th January 2005, the valuation of the fair value was conducted by a professional valuation company, Watson Wyatt Hong Kong Limited on 4th August 2005. According to its report, the volatility rate of the share price of the Company was determined with reference to the movement of selected comparators’ share prices during the period from November 1999 to July 2005. Taking into account the probability of leaving employment and early exercise behaviour stated above, the expected life of the grant of options was estimated to be 5.24 years. The risk free interest rate is taken to the linearly interpolated yield using Hong Kong Exchange Fund Notes as at 17th January 2005. It is expected that options holders will exercise when the share price is at least 325% of the exercise price.

\* *for identification purpose only*

In respect of the share options granted on 10th October 2005, the valuation of their fair value was conducted by another professional valuation company, B.I. Appraisals Limited, on 22nd March 2006. According to its report, historical volatility rate of the share price of the Company was determined with reference to the 90-day historical share prices of the Company proceeding the balance sheet date. Risk-free rate of 4.127% were adopted which were the Hong Kong Interbank Offered Rates (6-months) as at the end of December 2005. Other terms and conditions of these options including but not limited to the exercise condition, number of share outstanding, strike price and conversion numbers of the options.

<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price per share (HK\$)</b>	<b>Number of options Outstanding at 1.1.2006 and 30.9.2006</b>
<b>Directors and a former director</b>			
17.01.2005	17.01.2005 – 16.01.2015	0.45	1,770,000
10.10.2005	10.10.2005 – 9.10.2015	0.14	4,700,000
			6,470,000
<b>Employees and consultants</b>			
17.01.2005	17.01.2005 – 16.01.2015	0.45	3,000,000
10.10.2005	10.10.2005 – 9.10.2015	0.14	5,600,000
			8,600,000

## **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 on-going 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 continuing compliance adviser.

At 30 September 2006, 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.

## **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 nine months ended 30 September 2006.

## **AUDIT COMMITTEE**

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, quarterly report and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Wang Tian Ye, Mr. Xu Shi Hong and Mr. Wang Bin and Mr Wang Tian Ye is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the interim report for the nine months ended 30 September 2006 with the Directors.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the nine months ended 30 September 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

## **CORPORATE GOVERNANCE**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasis a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("Code on CG Practices") throughout the period ended 30 September 2006, except for the appointment of CEO following the resignation of Mr. He En Pei on 6 September 2006. Details of the Code adopted by the Company is set out in the section of Corporate Governance Report in the Annual Report 2005.

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

Executive directors	Sze Wai, Marco, Chen Si Gen, Shang Guan Bu Yan, Tan Shu Jiang
Independent non-executive directors	Wang Tian Ye, Xu Shi Hong and Wang Bin

On behalf of the Board  
**Sze Wai, Marco**  
*Chairman*

Hong Kong, 10 November 2006

*This announcement will remain on GEM Website on the “Latest Company Announcement” page for at least 7 days from the date of its posting.*