



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 2006**

**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.

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The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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, 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

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	3	715	3,764
Cost of sales		(549)	(2,592)
Gross profit		166	1,172
Other revenue	4	6	146
Selling and distribution expenses		(110)	(4,824)
Research and development costs		(4,502)	(1,598)
General and administrative expenses		(14,300)	(29,467)
Loss from operations		(18,740)	(34,571)
Finance costs		(1,483)	(1,125)
Waiver of amount due to a former shareholder		23,803	—
Impairment loss on goodwill		(9,697)	—
Impairment loss on interest in an associate		(4,849)	—
Share of losses of associates		—	(659)
Loss on disposal of an associate		—	(3,098)
Loss before taxation	5	(10,966)	(39,453)
Income tax	7(a)	—	(6)
Loss for the year		(10,966)	(39,459)
Attributable to:			
Equity shareholders of the Company		(11,248)	(38,372)
Minority interests		282	(1,087)
Loss for the year		(10,966)	(39,459)
Loss per share	9		
Basic		(5.62) cents	(19.19) cents
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment		—	1,614
Intangible assets		—	4,247
Interest in an associate		—	4,849
Goodwill		—	9,697
Deposits for acquisition of subsidiaries		22,710	12,710
		22,710	33,117
Current assets			
Trade and other receivables	10	747	1,542
Investment funds		—	16,427
Loans to minority shareholders		—	—
Cash and cash equivalents		164	561
		911	18,530
Current liabilities			
Trade and other payables	11	6,972	6,138
Amount due to a former shareholder		—	18,217
Amounts due to former directors		1,370	1,322
Amount due to a director		10	—
Bank loan, unsecured		14,000	13,208
Other loan payable, unsecured		436	436
		22,788	39,321
Net current liabilities		(21,877)	(20,791)
NET ASSETS		833	12,326
CAPITAL AND RESERVES			
Share capital		2,000	2,000
Reserves		(2,472)	9,326
Total equity attributable to equity shareholders of the Company		(472)	11,326
Minority interests		1,305	1,000
TOTAL EQUITY		833	12,326

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Capital surplus	General reserve	Exchange reserve	Share-based compensation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1 January 2005	2,000	30,224	15,090	2,927	—	—	(3,825)	46,416	2,087	48,503
Equity settled share-based transactions	—	—	—	—	—	3,282	—	3,282	—	3,282
Loss for the year	—	—	—	—	—	—	(38,372)	(38,372)	(1,087)	(39,459)
At 31 December 2005	<u>2,000</u>	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>—</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
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	(550)	—	—	(550)	23	(527)
Share options lapsed	—	—	—	—	—	(1,540)	1,540	—	—	—
Loss for the year	—	—	—	—	—	—	(11,248)	(11,248)	282	(10,966)
At 31 December 2006	<u>2,000</u>	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>(550)</u>	<u>1,742</u>	<u>(51,905)</u>	<u>(472)</u>	<u>1,305</u>	<u>833</u>

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

a) State of books and records maintained by certain subsidiaries

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, after the reconstitution of the board, the Group no longer has access to the books and records in respect of certain subsidiaries. The present directors have asked for co-operation from the former directors to assist in locating the relevant information and documents. However, the present directors have lost contact with certain former directors and are still unable to locate the relevant information and documents within the time constraint in the preparation of these financial statements. Hence, only limited books and records of these subsidiaries are accessible by the present directors. In view of the foregoing, no representations as to the completeness of the books and records could be given by the present directors although care has been taken in the preparation of the financial statements to mitigate the effect of the incomplete records. The directors have in the assessment of the Group's assets and liabilities taken such steps as they considered practicable to establish these assets and liabilities based on the information of which they were aware and have made provisions and adjustments as they considered appropriate in the preparation of these financial statements.

On this basis, the directors believe that no significant liability has not been included in these financial statements.

b) Going concern

At 31 December 2006, the Group had net current liabilities of approximately HK\$21,877,000, including the Group's short-term bank loans of approximately HK\$14,000,000 which have been overdue as at the date of authorisation for issue of these financial statements.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

- i) The directors of the Company are in ongoing negotiations with the Group's banker to reschedule the repayment of bank borrowings due from the Group and to seek the ongoing support to the Group from this banker and another bankers.
- ii) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company.
- iii) The directors of the Company continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date, together with expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 December 2006.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

c) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2. AUDITORS' OPINION

Basis for disclaimer of opinion

(i) Scope limitation – opening balance of investment funds

As explained in the previous auditor's report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to the Group's ownership and impairment of investment funds as at 31 December 2005.

Any adjustment that might have been found necessary in respect of the above as at 31 December 2005 would have had a consequential impact on the opening balance of net assets of the Group as at 1 January 2006, its loss for the year ended 31 December 2006, and the related disclosure in the financial statements.

(ii) Scope limitation — carrying amounts and recoverability of deposits for acquisition of subsidiaries

As explained in the previous auditor's report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to the ownership and recoverability of deposits of approximately HK\$12,710,000 for acquisition of subsidiaries as at 31 December 2005.

As detailed in note to the consolidated financial statements, the deposits for acquisition of subsidiaries referred to above are still outstanding at 31 December 2006 and the Group also paid another deposit of HK\$10,000,000 for the proposed acquisition of First Preview Limited and its subsidiaries during the year ended 31 December 2006. However, there were no documentary evidence to support whether the independent third parties have ability and commitment to complete the transactions and whether the deposits will be recovered, and in consequence whether the carrying amounts of deposits for acquisition of subsidiaries as at 31 December 2006 are fairly stated.

(iii) Scope limitation — interest in an associate

As explained in the previous auditor's report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to the impairment of goodwill arose from the acquisition of the associate as at 31 December 2005.

As detailed in note to the consolidated financial statements, the Group cannot access to the accounting records and management accounts of the associate for the year ended 31 December 2006, and consequently the Group could not arrange for the audit of the associate's management accounts for the year ended 31 December 2006. Because of this, the interest in the associate has been accounted for in the consolidated financial statements under the equity method using the financial information of the associate as at 31 December 2005, this is not in accordance with Hong Kong Accounting Standard ("HKAS") No. 28 "Investments in Associates" issued by the HKICPA. As no accounts of the associate for the year ended 31 December 2006 are yet available we are unable to estimate the financial effect on these consolidated financial statements of the departure from HKAS 28.

The directors have considered that the recoverability of interest in the associate is uncertain and it is prudent to make a full impairment loss of approximately HK\$4,849,000 against the carrying amount of interest in the associate. However, there was no sufficient reliable evidence to support the impairment loss on the interest in the associate. There were no practical alternative audit procedures that we could perform to determine the appropriateness of the impairment loss. Any excess of the impairment loss would have a consequential effect on the Group's net assets as at 31 December 2006 and its loss for the year then ended.

(iv) Scope limitation — impairment of goodwill

As explained in the previous auditor's report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to the impairment of goodwill arose from the acquisition of a subsidiary as at 31 December 2005.

As detailed in note to the consolidated financial statements, included in consolidated balance sheet as at 31 December 2006 is a goodwill against which full impairment loss of approximately HK\$9,697,000 was made during the current year. However, there were no satisfactory audit procedures that we could assess the impairment loss so as to determine the appropriateness of the impairment loss. Any excess of the impairment loss would have a consequential effect on the Group's net assets as at 31 December 2006 and its loss for the year then ended.

(v) Scope limitation — carrying amount and impairment of property, plant and equipment

As detailed in note 1(a) above and note to the consolidated financial statements, the Company's directors are unable to obtain a fixed assets register and the relevant assets after the reconstitution of the board. An impairment assessment has been performed by the Company's directors to determine the recoverable amounts of property, plant and equipment. Based on their assessment, an impairment loss of approximately HK\$1,468,000 has been made and charged to the consolidated income statement for the year ended 31 December 2006. In the absence of sufficient reliable evidence available to us, we were unable to carry out adequate audit procedures to satisfy ourselves that this impairment loss and other disclosures in the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the notes thereon relating to the property, plant and equipment are fairly stated.

(vi) Scope limitation — trade and other receivables

As at 31 December 2006, included in the consolidated balance sheet are trade and other receivables of approximately HK\$747,000, which was stated after write-off of trade and other receivables of approximately HK\$331,000 and impairment loss on trade and other receivables of approximately HK\$519,000, that were charged to the consolidated income statement for the year ended 31 December 2006. As detailed in note 1(a) above and due to the lack of sufficient reliable evidence, we have not been able to perform the audit procedures we considered necessary to satisfy ourselves as to whether the write-off of and impairment loss on trade and other receivables for the year ended 31 December 2006, and in consequence the carrying amount of trade and other receivables as at 31 December 2006 are fairly stated.

(vii) Scope limitation — cash and cash equivalents

As at 31 December 2006, included in the consolidated balance sheet are cash and cash equivalents of approximately HK\$153,000. As detailed in note 1(a) above and due to the lack of bank confirmations and other sufficient reliable evidence, we have not been able to perform the audit procedures we considered necessary to satisfy ourselves as to whether these cash and cash equivalents as at 31 December 2006 are fairly stated.

(viii) Scope limitation — trade and other payables and other loan payable

As at 31 December 2006, included in the consolidated balance sheet are trade and other payables of approximately HK\$4,235,000 and other loan payable of approximately HK\$436,000. As detailed in note 1(a) above and due to the lack of sufficient reliable evidence, we have not been able to perform the audit procedures we considered necessary to satisfy ourselves as to whether the carrying amount of trade and other payables and other loan payable as at 31 December 2006 are fairly stated.

(ix) Scope limitation — amounts due to former directors and directors' remuneration

As explained in note 1(a) above, the present directors have lost contact with certain former directors. We cannot obtain direct confirmations from these former directors in respect of the amounts of approximately HK\$1,338,000 due to certain former directors and their remuneration of approximately HK\$776,000, there were no practical alternative audit procedures that we could perform to support whether the amount of approximately HK\$1,338,000 due to certain former directors and their remuneration of approximately HK\$776,000 are fairly stated.

(x) Scope limitation — minority interests

The underlying books and records of certain subsidiaries have not been fully retained, as explained in note 1(a) above, and due to the incomplete books and records of these subsidiaries made available to us, we were unable to carry out adequate audit procedures to satisfy ourselves that minority interests relating to these subsidiaries in the consolidated balance sheet, the consolidated income statement and notes thereon are fairly stated.

(xi) Scope limitation — carrying amount of interests in subsidiaries and amounts due from subsidiaries

As at 31 December 2006, included in the balance sheet are interests in subsidiaries of approximately HK\$1,000, stated net of an impairment loss of approximately HK\$13,764,000, and amounts due from subsidiaries of approximately HK\$1,183,000, stated net of an impairment loss of approximately HK\$20,500,000. The impairment losses of approximately HK\$13,764,000 and HK\$20,500,000 on interests in subsidiaries and amounts due from subsidiaries, respectively, were charged to the income statement for the year ended 31 December 2006. Due to the scope limitations in respect of points (ii) to (ix) above, we have not been able to satisfy ourselves as to whether the impairment losses determined by the Company's directors against the carrying amounts of such interests in subsidiaries and amounts due from subsidiaries for the year ended 31 December 2006, and in consequence the net carrying amounts of interests in subsidiaries and amounts due from subsidiaries as at 31 December 2006 in the balance sheet and notes thereon are fairly stated.

(xii) Material uncertainties relating to going concern

As explained in note 1(b) above, which indicates that the Group incurred a consolidated net loss attributable to equity holders of the Company of approximately HK\$11,248,000 for the year ended 31 December 2006 and had a consolidated net current liabilities of approximately HK\$21,877,000 as at 31 December 2006, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Group's current negotiations with its banker and prospective investors to secure continual financial support and obtain new working capital in order for the Group to meet its financial obligation as they fall due and to finance its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such support and working capital. We consider that appropriate disclosures have been made. However, the uncertainties surrounding the outcome of these negotiations raise significant doubt about the Group's ability to continue as a going concern.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in points (i) to (xii) above.

Any adjustment that might have been found to be necessary in respect of the matters set out in points (i) to (xii) above would have a consequential effect on the financial positions of the Group and the Company as at 31 December 2006, the Group's loss and cash flows for the year then ended and the related disclosures in the financial statements.

Disclaimer of opinion: Disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion section, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

3. TURNOVER

Turnover represents the revenue from the provision of information localisation services 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 during the year is as follows:

	2006 HK\$'000	2005 HK\$'000
Information localisation services	715	3,759
General software	—	5
	<u>715</u>	<u>3,764</u>

4. OTHER REVENUE

	2006 HK\$'000	2005 HK\$'000
Interest income	1	82
Other income	5	64
	<u>6</u>	<u>146</u>

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

a) Research and development costs

	2006 HK\$'000	2005 HK\$'000
Staff costs	—	651
Rental expenses	—	577
Others	—	43
	<u>—</u>	<u>1,271</u>
Less: Amount capitalised	—	(1,271)
	<u>—</u>	<u>—</u>
Add: Amortisation of intangible assets	1,329	1,160
Impairment of intangible assets	3,173	438
	<u>4,502</u>	<u>1,598</u>

b) Finance costs

	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>1,483</u>	<u>1,125</u>

c) Staff costs (including directors' remuneration)

	2006 HK\$'000	2005 HK\$'000
Salaries, wages and allowances	2,181	5,115
Equity-settled share-based payment expenses	—	2,034
Contributions to retirement benefits schemes	<u>74</u>	<u>396</u>
	<u>2,255</u>	<u>7,545</u>

d) Other items

	2006 HK\$'000	2005 HK\$'000
Auditors' remuneration		
— current year	300	325
— over-provision in prior year	—	(48)
Depreciation of property, plant and equipment	242	1,231
Amortisation of intangible assets	1,329	1,160
Impairment losses in respect of		
— Interests in an associate	4,849	—
— Goodwill	9,697	—
— Intangible assets	3,173	438
— Inventories	—	2,636
— Trade and other receivables	519	7,446
— Property, plant and equipment	1,468	—
Loss on investment funds	6,411	—
Loss on disposal of property, plant and equipment	—	47
Loss on disposal of an associate	—	3,098
Write-off of property, plant and equipment	—	1,906
Write-off of deposit for acquisition of property, plant and equipment (include in other receivables)	—	3,774
Write-off of trade and other receivables	331	—
Operating lease charges in respect of properties:		
— minimum lease payments	132	1,488
Net foreign exchange loss	—	14
Equity-settled share-based payment expenses	<u>—</u>	<u>1,248</u>

6. SEGMENT REPORTING

Business segmental information for the year ended 31 December 2006 and 2005 are shown as below and chosen as the primary reporting format because this is more relevant to the Groups internal financial reporting.

As the Group mainly operates in the PRC, no geographical segment information is presented.

Business segments

The Group comprise the following main 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.

For the year ended 31 December 2006

	Information localisation services HK\$'000	General software HK\$'000	Consolidated HK\$'000
Revenue from external customer	<u>715</u>	<u>—</u>	<u>715</u>
Segment result	<u>(14,389)</u>	<u>—</u>	<u>(14,389)</u>
Unallocated operating income and expenses			<u>(4,351)</u>
Loss from operations			(18,740)
Finance costs			(1,483)
Waiver of amount due to a former shareholder			23,803
Impairment loss on goodwill			(9,697)
Impairment loss on interest in an associate			<u>(4,849)</u>
Loss before tax			(10,966)
Income tax			<u>—</u>
Loss for the year			<u>(10,966)</u>
Depreciation and amortisation	1,571	—	
Impairment loss on intangible assets	3,173	—	
Impairment loss for bad and doubtful debts	519	—	
Impairment loss on property, plant and equipment	<u>1,468</u>	<u>—</u>	
Capital expenditure	<u>—</u>	<u>—</u>	
At 31 December 2006			
Segment assets	447	—	447
Unallocated assets			<u>23,174</u>
Consolidated total assets			<u>23,621</u>
Segment liabilities	1,040	—	1,040
Unallocated liabilities			<u>21,748</u>
Consolidated total liabilities			<u>22,788</u>

For the year ended 31 December 2005

	Information localisation services HK\$'000	General software HK\$'000	Consolidated HK\$'000
Revenue from external customer	<u>3,759</u>	<u>5</u>	<u>3,764</u>
Segment result	<u>(9,915)</u>	<u>(12,366)</u>	<u>(22,281)</u>
Unallocated operating income and expenses			<u>(12,290)</u>
Loss from operations			(34,571)
Finance costs			(1,125)
Share of results of associates			(659)
Loss on disposal of an associate			<u>(3,098)</u>
Loss before tax			(39,453)
Income tax			<u>(6)</u>
Loss for the year			<u>(39,459)</u>
Depreciation and amortisation	2,392	—	
Impairment loss on intangible assets	—	438	
Impairment loss for bad and doubtful debts	—	3,566	
Impairment loss for inventories	—	2,636	
Loss on disposal of property, plant and equipment	—	47	
Written off of property, plant and equipment	—	1,906	
Written off of deposit for acquisition of property, plant and equipment	<u>—</u>	<u>3,774</u>	
Capital expenditure	<u>501</u>	<u>—</u>	
Segment assets	8,563	—	8,563
Unallocated assets			<u>43,084</u>
Consolidated total assets			<u>51,647</u>
Segment liabilities	2,852	—	2,852
Unallocated liabilities			<u>36,469</u>
Consolidated total liabilities			<u>39,321</u>

7. INCOME TAX IN THE CONSOLIDATION INCOME STATEMENT

- a) Income tax in the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Current tax – PRC income tax		
Provision for the year	—	6

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits the years ended 31 December 2006 and 2005.

For the year ended 31 December 2006, no provision for PRC income tax has been made as the Group has no estimated assessable profits for the year. For the year ended 31 December 2005, the PRC income tax of the Group represented the provision for the PRC income tax on profits of subsidiaries 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.

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%.

- b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2006 HK\$'000	2005 HK\$'000
Loss before tax	(10,966)	(39,453)
Notional tax on loss before tax, calculated at the rates applicable to losses in the tax jurisdictions concerned	(1,572)	(3,341)
Tax effect of non-deductible expenses	4,236	2,008
Tax effect on non-taxable income	(2,426)	—
Tax effect of prior years' tax losses utilised this year	(411)	—
Tax effect on unused tax losses not recognised	173	1,339
Actual tax expense	—	6

8. DIVIDEND

No dividend was paid or proposed during the two years ended 31 December 2006 and 2005 nor has any dividend been proposed since the balance sheet date.

9. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately HK\$11,248,000 (2005: HK\$38,372,000) and the weighted average of 200,000,000 (2005: 200,000,000) ordinary shares in issue during the year.

b) Diluted loss per share

There were no dilutive potential ordinary share in issue during the years ended 31 December 2006 and 2005 as no diluting events were existed during these two years.

10. TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade debtors	53	417
Other debtors, deposits and prepayments	694	1,125
	<u>747</u>	<u>1,542</u>

Debts are due for payment at the date of billing. Credit term granted by the Group to customers is generally between one to six months. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records.

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debts (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
Within 30 days	—	12
31–120 days	—	33
121–240 days	—	65
241–360 days	—	307
Over 360 days	53	—
	<u>53</u>	<u>417</u>

11. TRADE AND OTHER PAYABLES

	2006 HK\$'000	2005 HK\$'000
Trade creditors	369	352
Other creditors and accrued charges	6,603	5,786
	<u>6,972</u>	<u>6,138</u>

All of the trade and other payables are expected to be recovered within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
Due within 90 days or on demand	—	12
Over 360 days	369	340
	<u>369</u>	<u>352</u>

BUSINESS REVIEW

During the year under review, the Group is principally engaged in the information localisation business. In view of the significant decrease in translation works carried out by the Group due to severe market competition compared with the corresponding period last year, the Group has decided to rationalise its business by focusing on providing professional translation services to more established customers of larger scale. These customers usually adopt tendering procedure for new orders with great emphasis on pricing. However, we face our customers' demand for quality work, which often imposes difficulties in lowering costs. As a result, our business performance is undermined.

PROSPECTS

On the back of the globalisation of various industries, the quicker penetration of multi-national companies into markets around the world and the rapid opening of the PRC market, an enormous translation market with great potential revenues is in place. With the continued growth of the PRC economy and more and more large-scale international events, such as the 2008 Beijing Olympic Games and Expo 2010 Shanghai to be staged in the PRC, we remain optimistic towards the future of our information localisation business.

With its expertise and resources in information localisation business accumulated over the years, coupled with its strength in technology research and development, the Group strives to capitalise on its competitive edges and to attain better results in information localisation business.

Meanwhile, the Group is in constant review of its business strategy and watch for other business opportunities with a view to expanding the business portfolio and profitability of the Group.

FINANCIAL REVIEW

Overall Review

The Group's operation in the sales of general software, custom-made solution and licensing reduced to quite a large extent that results the turnover dropping significantly compared with 2005. At the same time, the operating costs of the Group has decreased by 47.3% compared with 2005. As a result, the Group's loss attributable to equity holders of the parent has decreased to approximately HK\$11.2 million for the year ended 31 December 2006, as compared to the loss attributable to shareholders of approximately HK\$38.4 million for last year.

Revenue

For the year ended 31 December 2006, the total revenue of the Group was approximately HK\$0.7 million, representing approximately 81.0% decrease from that of approximately HK\$3.8 million generated in the year ended 31 December 2005. The decrease in revenue was mainly attributable to the downsizing of the business segments in the sales of general software business, licensing fee and custom-made solutions. The revenue of the Group's information localisation business, which was our core business during the year, amounted to approximately HK\$0.7 million, representing approximately 81.0% decrease from that of approximately HK\$3.8 million generated for the year ended 31 December 2005. The decrease was mainly attributable to severe competition in the industry.

Gross Profit

For the year ended 31 December 2006, the Group recorded gross profit of approximately HK\$0.2 million as compared to approximately HK\$1.1 million last year. Overall gross profit margin was approximately 23.2% this year as compared with approximately 31.1% last year.

Operating Costs

For the year ended 31 December 2006, the Group's operating costs, which include administrative expenses, selling expenses and research and development costs, decreased by approximately 47.3% compared with that of the year 2005. Of the total operating costs, the administrative expenses have decreased by approximately 51.5% whereas selling expenses, research and development costs have decreased and increased by approximately 97.7% and 181.7% respectively. At the same time, the overall business results cannot improve correspondingly, that results in the Group recorded loss attributable to the equity holders of the parent to be approximately HK\$11.2 million as compared with approximately HK\$38.4 million for the corresponding period in 2005.

Financial Resources and Liquidity

As at 31 December 2006, the Group had bank balances and cash of approximately HK\$0.2 million (2005: HK\$0.6 million). About 99.1% (2005: approximately 98.9%) of the total bank balances and cash were denominated in Renminbi ("RMB") with the remainder in Hong Kong dollars.

As at 31 December 2006, the outstanding bank loan and other loan of the Group amounted to approximately HK\$14 million (2005: HK\$13.2 million). The bank borrowings, denominated in RMB, are repayable within one year and bearing interest of 6.38% per annum.

Gearing Ratio

As at 31 December 2006, the total assets of the Group were approximately HK\$23.6 million (2005: HK\$51.6 million) whereas the total liabilities were approximately HK\$22.8 million (2005: HK\$39.3 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 96.6% (2005: 76.2%).

Foreign Exchange Exposure

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

Acquisition, Disposal and Significant Investment

A conditional acquisition agreement dated 16 May 2006 was entered into between the Group and the vendor in relation to an acquisition of hotel management and leasing of hotel rooms business by the Group. Such acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules. However, the Company has been informed by the Stock Exchange that the acquisition would not be in full compliance with Rule 19.88 of the GEM Listing Rules and the waiver of the requirements of Rule 19.88 pursuant to Rule 19.89 of the GEM Listing Rules will not be granted in this case. In the event that no revised structure of the acquisition could be agreed upon, the parties will terminate the said conditional acquisition agreement as the conditions precedent could not be fulfilled, and no party thereto shall have any obligation or liability to the other party.

Other than disclosed above, for the year ended 31 December 2006, 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. Save as disclosed therein, there was no other future significant investment plan as at 31 December 2006.

Pledge of Assets and Contingent Liabilities

As at 31 December 2006, 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 2006.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2006, the Group employed 6 staff (2005: 52 staff). The staff cost (including directors' remuneration) was approximately HK\$2.3 million for the year under review (2005: HK\$7.5 million). The Directors received remuneration of approximately HK\$1.1 million during the year ended 31 December 2006 (2005: HK\$2.7 million). 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 state-managed retirement benefit scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. The Group also provides training to staff regularly.

DIRECTORS' CONTRACTS

Except for Ms. Tinna Chan Yee and Ms. Sana Bakhtiar Ahmed who have not entered into any service contract with the Company and who are not appointed for a fixed term, each of the other executive Directors and non-executive Directors has entered into a service contract with the Company for an initial term of two to three years, and is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's articles of association.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

As at 31 December 2006, neither any of the Directors nor the chief executive had interests and or short positions 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.

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 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 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:

Name	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
S&D Holdings Group Limited	Beneficial owner (Note 2)	64,355,828 (L)	32.18%
Shanghai Jiao Tong University	Interest of a controlled corporation (note 3)	22,528,484 (L)	11.26%
Shanghai Jiada Industrial Investment Management (Group) Limited ("Jiada Industrial Group")	Interest of a controlled corporation (note 3)	22,528,484 (L)	11.26%
Simplex Technology Investment (Hong Kong) Co. Limited ("Simplex")	Beneficial owner	22,528,484 (L)	11.26%
HongKong Sunway Technology Development Limited ("HK Sunway")	Beneficial Owner	20,157,157 (L)	10.08%

Notes:

- The letter "L" denotes the entity's long position in the Shares.
- The entire share capital of S&D Holdings Group Limited is beneficially owned by Ms. Wen Chen as to 4.17%, Ms. Tinna Chan Yee as to 14.16%, Mr. David Cigar Yee as to 14.17%, Mr. Syed Waliuddin Ahmed as to 14.17%, Ms. Sana Bakhtiar Ahmed as to 14.17%, Mr. Frank Wai Kah Yee as to 15% and Mr. Stephen Yee as to 24.16% respectively.
- The interests in the Shares are held through Simplex, the entire issued share capital of which is beneficially owned by Jiada Industrial Group. The registered capital of Jiada Industrial Group is owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiada Enterprise Management Centre (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

The Company has not been notified of other interests or short positions of any other person (other than the Directors and chief executives and the substantial shareholders of the Company) in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2006.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

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, 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 (the "Code") throughout the year ended 31 December 2006. Details of the Code adopted by the Company are set out in the section of Corporate Governance Report.

AUDIT COMMITTEE

The Company has established an 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.

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 year ended 31 December 2006.

By Order of the Board
SJTU Sunway Software Industry Limited
Tinna Chan Yee
Executive Director

Hong Kong, 3 July 2007

As at the date of this announcement, the Board comprises Ms. Tinna Chan Yee, Ms. Sana Bakhtiar Ahmed and Mr. Tan Shu Jiang being executive directors of the Company; and Mr. Chan Cheong Yee, Mr. Ronald Garry Hopp and Mr. Yip Tai Him being independent non-executive Directors.

The 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 Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited 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: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) 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.

This announcement will remain on the “Latest Company Announcements” page of the GEM website (<http://www.hkgem.com>) for at least seven days from the date of its posting.

** For identification purpose only*