



交大銘泰軟件實業有限公司\*  
SJTU SUNWAY SOFTWARE INDUSTRY LIMITED

(incorporated in the Cayman Islands with limited liability)



FIRST QUARTERLY REPORT 2005

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

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*This report, 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**FIRST QUARTERLY UNAUDITED RESULTS**

The board of directors (the "Board") of the Company hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively as the "Group") for the three months ended 31 March 2005, together with the comparative figures for the corresponding period in 2004, as follows:

**Consolidated income statement**

		<b>Three months ended 31 March</b>	
	<i>Note</i>	<b>2005 HK\$'000</b>	2004 HK\$'000
Turnover	2	<b>836</b>	4,917
Cost of sales		<b>(345)</b>	(1,362)
Gross profit		<b>491</b>	3,555
Other revenue		<b>3</b>	714
Selling expenses		<b>(989)</b>	(1,006)
Research and development costs		<b>(627)</b>	(484)
Administrative expenses		<b>(3,055)</b>	(2,399)
(Loss)/profit from operations		<b>(4,177)</b>	380
Net finance costs		<b>(307)</b>	(126)
Share of losses in an associate		<b>(309)</b>	—
(Loss)/profit from ordinary activities before taxation		<b>(4,793)</b>	254
Taxation	3	—	(89)
(Loss)/profit from ordinary activities after taxation		<b>(4,793)</b>	165
Minority interests		<b>114</b>	—
(Loss)/profit attributable to shareholders		<b>(4,679)</b>	165
(Loss)/earnings per share	5		
Basic		<b>(2.34) cents</b>	0.08 cents
Diluted		<b>N/A</b>	N/A

Notes:

**1. Basis of presentation**

The unaudited consolidated results have been prepared in accordance with the applicable Statements of Standard Accounting Practice and the accounting principles generally accepted in Hong Kong issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted in the unaudited consolidated results are in line with those adopted in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2004.

All intra-group transactions and balances have been eliminated upon the preparation of the unaudited consolidated financial statements.

**2. Turnover**

The principal activities of the Group are the provision of information localisation services 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.

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

	<b>Three months ended</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Information localisation services	<b>830</b>	–
General software	<b>6</b>	679
Licensing fee	–	501
Custom-made solutions	–	2,467
Translation services	–	1,270
	<b>836</b>	<b>4,917</b>

**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 31 March 2005 and 2004.

**4. Dividends**

No dividend has been paid or declared by the Company during the period under review (2004: Nil).

**5. (Loss)/earnings per share****(a) Basic (loss)/earnings per share**

The calculation of (loss)/earnings per share is based on the loss attributable to shareholders of HK\$4,679,000 (2004: profit attributable to shareholders of HK\$165,000) and the 200,000,000 (2004: 200,000,000) ordinary shares in issue as at 31 March 2005.

**(b) Diluted (loss)/earnings per share**

There were no potential dilutive ordinary shares in existence during the periods ended 31 March 2005 and 2004.

**6. Reserves**

	Share premium HK\$'000	Capital surplus HK\$'000	General reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2004	13,557	15,090	2,927	21,671	53,245
Loss for the year	–	–	–	(25,496)	(25,496)
Premium arising from the issuance of shares for cash	29,400	–	–	–	29,400
Shares issuance expenses	(11,633)	–	–	–	(11,633)
Capitalisation issue	(1,100)	–	–	–	(1,100)
At 31 December 2004	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>(3,825)</u>	<u>44,416</u>
At 1 January 2005	30,224	15,090	2,927	(3,825)	44,416
Loss for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>(4,679)</u>	<u>(4,679)</u>
At 31 March 2005	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>(8,504)</u>	<u>39,737</u>

**MANAGEMENT DISCUSSION AND ANALYSIS****Financial Review***Overall Review*

For the three months ended 31 March 2005, the Group recorded a turnover of approximately HK\$836,000, representing a 83.0% downward adjustment as compared to the same period last year. With the Group's strategic business restructuring, the Group focused more on the information localisation business sector, leading to a decrease in turnover from general software business and a significant drop in the Group's total turnover. The expansion of the information localisation business leads to a prominent increase of operating expenses for the establishment of a number of operation branches and subsidiaries in 2004. As a result, the Group's loss attributable to shareholders was approximately HK\$4,679,000 for the period under review, as compared to profit attributable to shareholders of approximately HK\$165,000 for the same period last year.

*Financial Resources and Liquidity*

As at 31 March 2005, the Group had bank balances and cash of approximately HK\$31.8 million. Taken into consideration of the current financial resources, the Group shall have adequate capital for its continual operation and development.

*Gearing Ratio*

As at 31 March 2005, the total asset value of the Group was approximately HK\$74.4 million whereas the total liabilities was approximately HK\$31.0 million. The gearing ratio of the Group, calculated as total liabilities over total assets, was 41.7% (31 December 2004: 32.3%). The Directors are of the view that such low gearing ratio is in a healthy position of the Group.

*Foreign Exchange Exposure*

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

*Acquisition, Disposal and Significant Investment*

On 30 March 2005, the Group entered into an Equity Transfer Agreement with an independent third party which agreed to purchase 100% interests in Mighty Wish Services Limited and Shanghai Ruijin Translation Company Limited ("Translation Company") in which the Translation Company is principally engaged in the business of information localisation in the PRC.

*Pledge of Assets and Contingent Liabilities*

As at 31 March 2005, the Group did not have any substantial pledge of assets and contingent liabilities.

**BUSINESS REVIEW AND PROSPECTS****Business Review**

During the period under review, the Group committed to the development of the information localisation business and continued to put in more resources to research and development. Also, the result contribution from the information localisation business has not yet fully covered the result previously contributed by the general software business and custom-made solutions business. As a result of the above factors, loss attributable to shareholders for the first quarter ended 31 March 2005 was approximately HK\$4,679,000.

It is the Group's business development plan to expand into the information localisation business with higher gross profit and greater market potential. As such, the Group will actively identify development opportunities to strengthen this business. On 30 March 2005, the Group entered into a sale and purchase agreement to acquire 100% interests of Mighty Wish Services Limited ("Mighty Wish") and Shanghai Ruijin Translation Company Limited ("Translation Company"), a company engaging in information localisation business in the PRC, so as to bring in synergies to our information localisation business.

During the period under review, the Group continued to put further resources for the development of the information localisation business. With regard to research and development, the Group also made new progress, effectively enhancing the quality, efficiency, volume and stability of "Lingoworld" and sharpening the Group's competitive edges in the arena of information localisation. Furthermore, the Group also started the research of multi-lingual websites and gained the support and recognition from local governments of major bi-lingual cities in the PRC, including Fuzhou and Chongqing.

During the period under review, “Lingoworld” continued to have secured projects from several prestigious PRC, Hong Kong and internationally renowned corporations and institutions, covering a wide array of industries, including automobile, information technology, energy, machinery and construction, providing customers with high standard information localisation services of recognised quality.

The Group has also been actively exploring its expansion into overseas market and committed to establishing Singapore as its overseas headquarters. Meanwhile, the Group has started to explore the possibility of becoming the service partner of overseas translation agency during the period, which will enable it to win contracts from overseas customers and increase its profit margin.

### **Prospects**

In order to strengthen the leading position of the Group's information localisation business in the automobile, information technology, energy, machinery and construction industries, while further expanding the market of information localisation, the Group has entered into sale and purchase agreement to acquire 100% interests of Mighty Wish and Translation Company. The Group believes that by acquiring information localisation business in the PRC, the business operation of the Group will be further strengthened and the utilisation of resources will be more efficient, so as to explore the business opportunities of the lucrative information localisation market.

Apart from the abovementioned industries, the Group will target on the expansion into the information technology and finance sectors this year. As more and more international corporations are moving their research and development 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. Besides, the increasing number of Chinese corporations seeking overseas listing for fund raising has accelerated the Group's expansion into the finance sector.

With regard to bi-lingual businesses, the Group has identified Sichuen News as its technology test case. Testing and trial runs are expected to be completed by late June 2005 and applications will be extended until after October 2005. Large-scale commercial applications and promotions will take place in January 2006.

The well-organised structure of the Group's business coupling with the promising development prospects of the information localisation business, the Group is highly confident that it will become one of the top information localisation expert in the Greater China region, and expect to generate satisfactory returns to our investors and shareholders.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES**

As at 31 March 2005, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the 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>
He En Pei	Beneficial interest	1,770,000 Shares (L) <i>(note 2)</i>
He Zhan Tao	Beneficial interest	250,000 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 each of He En Pei and He Zhan Tao under the share option scheme of the Company.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS IN THE COMPANY

### (a) Substantial shareholders

As at 31 March 2005, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and were directly or indirectly, interested in 10% 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 of shareholder	Nature of interest	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 (Hong Kong) Co. Limited ("Simplex")	Beneficial owner	24,528,484 (L)	12.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group")	Interest of a controlled corporation (note 3)	24,528,484 (L) (note 4)	12.26%
Shanghai Jiao Tong University	Interest of a controlled corporation (note 3)	24,528,484 (L) (note 4)	12.26%
Hongkong Sunway Technology Development Limited ("HK Sunway")	Beneficial owner	20,157,757 (L)	10.08%

Notes:

- The letter "L" denotes the entity's interests in the Shares.
- 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.
- The interest in the Shares is held through, Simplex, the entire issued share capital of which was 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.
- 2,000,000 Shares out of these 24,528,484 Shares are the Shares which would be allotted and issued upon exercise in full of the options granted to Simplex under the share option scheme of the Company.

**(b) Other persons whose interests are recorded in the register required to be kept under the provisions of Divisions 2 and 3 of Part XV of the SFO**

As at 31 March 2005, save for the entities disclosed in sub-paragraph (a) above, the following entities/person, so far as is known to the Directors, had an interest or short position in the shares and 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
Dignet Investment Limited ("Dignet")	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 controlled corporations (Note 2)	14,653,812 (L)	7.33%

Notes:

1. The letter "L" denotes the entity's interests in the Shares.
2. The interests in the Shares were held through Dignet, 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.

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 March 2005, 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 three months ended 31 March 2005.

### **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 procedures and internal control system of the Company.

The audit committee comprised three independent non-executive Directors, namely Mr. Wang Tian Ye, Mr. Song Jing Sheng and Mr. Ho Chen Yu during the period under review. Mr. Wang Tian Ye is the chairman of the Committee. Mr. Ho Chen Yu has retired at the Annual General Meeting ("AGM") held on 6 May 2005 and not offered himself for re-election at the AGM.

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 quarterly report for the three months ended 31 March 2005 with the Directors.

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

Executive directors	Sze Wai, Marco, Chu Chi Shing, He En Pei, He Zhan Tao, Chen Si Gen, Wang Hui Bo, Shang Guan Bu Yan
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Independent non-executive directors	Song Jing Sheng and Wang Tian Ye
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By order of the Board  
**Sze Wai, Marco**  
*Chairman*

Hong Kong, 11 May 2005