



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)

A word cloud background with various languages including Danish, French, Spanish, Swedish, Italian, and German. The words are in different colors and sizes, creating a dynamic and international feel.

INTERIM REPORT 2004

* for identification only

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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.

Summary

- Due to the Group's strategic business restructuring with information localization business as prime focus, the turnover of information localization business increased 2.26 times to HK\$7,467,000 for the six months ended 30 June 2004. Due to the significant decrease in the turnover of general software business, the total turnover for the review period decreased 48.5% to HK\$8,969,000.
- For the six months ended 30 June 2004, the contribution from information localization business has been substantially increased to 83.3% of the Group's total turnover. As the gross profit margin of the information localization business was higher than that of the general software business, the Group recorded an increased overall gross profit margin of 17.3%.
- Loss attributable to shareholders for the six months ended 30 June 2004 was HK\$2,466,000.
- The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

INTERIM 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 six months and three months ended 30 June 2004, together with the comparative figures for the corresponding periods in 2003, as follows:

Condensed consolidated income statement

	Note	Six months ended 30 June		Three months ended 30 June	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Audited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	8,969	17,402	4,052	10,709
Cost of sales		(2,881)	(7,322)	(1,519)	(4,557)
Gross profit		6,088	10,080	2,533	6,152
Other revenue		972	987	258	711
Selling expenses		(2,815)	(3,379)	(1,809)	(1,581)
Research and development costs		(1,028)	(1,154)	(544)	(585)
Administrative expenses		(5,391)	(2,711)	(2,992)	(1,550)
(Loss)/Profit from operations		(2,174)	3,823	(2,554)	3,147
Net finance costs		(247)	(169)	(121)	(127)
(Loss)/Profit from ordinary activities before taxation	3	(2,421)	3,654	(2,675)	3,020
Taxation	4	(111)	(154)	(22)	(121)
(Loss)/Profit from ordinary activities after taxation		(2,532)	3,500	(2,697)	2,899
Minority interests		66	–	66	–
(Loss)/Profit attributable to shareholders		(2,466)	3,500	(2,631)	2,899
Interim dividends		–	–	–	–
(Loss)/Earnings per share	6				
Basic		(1.23) cents	2.69 cents	(1.32) cents	2.23 cents
Diluted		N/A	N/A	N/A	N/A

Condensed consolidated balance sheet

	Note	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Non-current assets			
Fixed assets	7	4,614	1,527
Intangible assets		5,196	3,514
Interest in an associate		3,297	–
		<u>13,107</u>	<u>5,041</u>
Current assets			
Inventories		3,344	2,161
Trade and other receivables	8	30,789	50,289
Cash and cash equivalents		40,767	17,162
		<u>74,900</u>	<u>69,612</u>
Current liabilities			
Trade and other payables	9	3,298	12,529
Bank loan (unsecured)		14,130	8,491
Taxation		22	188
		<u>17,450</u>	<u>21,208</u>
Net current assets		<u>57,450</u>	<u>48,404</u>
Total assets less current liabilities		70,557	53,445
Minority interests		(1,111)	–
NET ASSETS		<u>69,446</u>	<u>53,445</u>
CAPITAL AND RESERVES			
Share capital	10	2,000	200
Reserves		67,446	53,245
		<u>69,446</u>	<u>53,445</u>

Condensed consolidated cash flow statement

	Six months ended	
	30 June 2004 HK\$'000 (Unaudited)	30 June 2003 HK\$'000 (Audited)
Net cash inflow from operating activities	11,734	10,730
Net cash inflow/(outflow) from investing activities	15,896	(451)
Net cash (outflow)/inflow from financing activities	(4,025)	3,780
Increase in cash and cash equivalents	23,605	14,059
Cash and cash equivalents at beginning of the period	17,162	1,842
Cash and cash equivalents at end of the period	40,767	15,901
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	40,767	15,901

Condensed statement of changes in equity

	Share capital HK\$'000	Share premium HK\$'000	Capital surplus HK\$'000	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003 (Audited)	78	–	15,090	2,134	14,320	31,622
Profit for the period	–	–	–	–	3,500	3,500
At 30 June 2003 (Audited)	78	–	15,090	2,134	17,820	35,122
At 1 January 2004 (Audited)	200	13,557	15,090	2,927	21,671	53,445
Placing of new shares	1,800	–	–	–	–	1,800
Premium on placing of shares	–	29,400	–	–	–	29,400
Capitalization	–	(1,100)	–	–	–	(1,100)
Issuing expenses for share placing	–	(11,633)	–	–	–	(11,633)
Loss for the period	–	–	–	–	(2,466)	(2,466)
At 30 June 2004 (Unaudited)	2,000	30,224	15,090	2,927	19,205	69,446

Notes:

1. Basis of preparation

The Group's unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The condensed interim financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2003.

2. Turnover and segment information

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

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:

Six months ended 30 June 2004

	Information Localization		General Software		Consolidated HK\$'000 (Unaudited)
	Translation services HK\$'000 (Unaudited)	Custom-made solutions HK\$'000 (Unaudited)	General software HK\$'000 (Unaudited)	Licensing fee HK\$'000 (Unaudited)	
Revenue from external customers	<u>2,584</u>	<u>4,883</u>	<u>997</u>	<u>505</u>	<u>8,969</u>
Segment result	<u>843</u>	<u>2,295</u>	<u>(592)</u>	<u>671</u>	<u>3,217</u>
Unallocated operating income and expenses					<u>(5,391)</u>
Profit from operations					(2,174)
Net finance costs					(247)
Taxation					(111)
Minority interests					<u>66</u>
Profit attributable to shareholders					<u>(2,466)</u>

Six months ended 30 June 2003

	Information Localization		General Software		Consolidated HK\$'000 (Audited)
	Translation services HK\$'000 (Audited)	Custom-made solutions HK\$'000 (Audited)	General software HK\$'000 (Audited)	Licensing fee HK\$'000 (Audited)	
Revenue from external customers	<u>–</u>	<u>2,289</u>	<u>13,395</u>	<u>1,718</u>	<u>17,402</u>
Segment result	<u>–</u>	<u>1,712</u>	<u>2,861</u>	<u>1,961</u>	6,534
Unallocated operating income and expenses					<u>(2,711)</u>
Profit from operations					3,823
Net finance costs					(169)
Taxation					(154)
Minority interests					<u>–</u>
Profit attributable to shareholders					<u>3,500</u>

3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Audited)
Amortisation of intangible assets	1,028	747
Depreciation	298	421
Interest on bank advances and other borrowings repayable within five years	172	360
Loss on disposal of fixed assets	<u>–</u>	<u>73</u>

4. Taxation

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the period ended 30 June 2004 and the period ended 30 June 2003.

Taxation in the consolidated income statement represents the provision of PRC income tax for a subsidiary during the period ended 30 June 2004 and the period ended 30 June 2003.

5. Dividends

No dividend has been paid or declared by the Company for the period ended 30 June 2004 (2003: Nil).

6. Loss/earnings per share

(a) Basic loss/earnings per share

The calculation of basic loss/earnings per share for the six months and three months ended 30 June 2004 were based on the net loss of HK\$2,466,000 and HK\$2,631,000 respectively (2003: net profit of HK\$3,500,000 and HK\$2,899,000 respectively) over the weighted average number of ordinary shares in issue of 200,000,000 for the six months and three months ended 30 June 2004 (2003: 130,000,000).

(b) Diluted loss/earnings per share

There were no potential dilutive ordinary shares in existence during the period ended 30 June 2004 and the period ended 30 June 2003.

7. Fixed assets

During the period, the Group spent approximately HK\$3,386,000 on additions of property, plant and equipment.

8. Trade and other receivables

	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
Accounts receivable	17,794	21,060
Suppliers' deposits	7,062	4,009
Prepayments, deposits and other receivables	5,933	25,220
	<hr/> 30,789 <hr/>	<hr/> 50,289 <hr/>

Included in trade and other receivables are accounts receivable (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
Current	610	4,723
Aged over 1 month but less than 4 months	4,508	8,140
Aged over 4 months but less than 8 months	7,826	4,562
Aged over 8 months but less than 12 months	4,850	3,007
Aged over 1 year	-	628
	<hr/> 17,794 <hr/>	<hr/> 21,060 <hr/>

Debts are due for payment at the date of billing. Credit terms 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.

9. Trade and other payables

	At 30 June 2004 <i>HK\$'000</i> (Unaudited)	At 31 December 2003 <i>HK\$'000</i> (Audited)
Accounts payable	1,300	1,259
Other payables	1,998	11,270
	<u>3,298</u>	<u>12,529</u>

Included in trade and other payables are accounts payable with the following ageing analysis:

	At 30 June 2004 <i>HK\$'000</i> (Unaudited)	At 31 December 2003 <i>HK\$'000</i> (Audited)
Due within 3 months or on demand	534	418
Due after 3 months but within 6 months	367	33
Due after 6 months but within 1 year	145	722
Over 1 year	254	86
	<u>1,300</u>	<u>1,259</u>

10. Share capital

	<i>HK\$'000</i>
Authorized:	
4,000,000,000 ordinary shares of HK\$0.01 each	<u>40,000</u>
Issued:	
At 31 December 2003	
– 20,000,000 ordinary shares of HK\$0.01 each	200
Placing	
– 70,000,000 ordinary shares of HK\$0.01 each	700
Capitalisation Issue	
– 110,000,000 ordinary shares of HK\$0.01 each	<u>1,100</u>
At 30 June 2004	
– 200,000,000 ordinary shares of HK\$0.01 each	<u>2,000</u>

Immediately following completion of the Placing and the Capitalisation Issue on 7 January 2004, 180,000,000 ordinary shares were allotted and issued fully paid or credited as fully paid.

11. Commitments

Commitments under operating leases

At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2004 HK\$'000 (Unaudited)	At 31 December 2003 HK\$'000 (Audited)
Within 1 year	–	10
After 1 year but within 5 years	4,887	–
	4,887	10

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two to four years, with an option to renew the lease where all terms are subject to negotiation. None of the leases includes contingent rentals.

12. Related party transactions

(a) *Non-trading transaction*

During the six months ended 30 June 2004, the Group has paid rental expenses of HK\$139,000 (2003: Nil) to a shareholder of the Group. The Directors of the Company are of the opinion that the above transaction with the shareholder was conducted on normal commercial terms in the ordinary course of the Group's business.

(b) *Balance with a related party*

As at 30 June 2004, included in other receivables is an amount due from a shareholder of HK\$989,000 (31 December 2003: amount due to a shareholder of HK\$2,911,000) which represents the current account balance with the shareholder. The amount was unsecured and had no fixed terms of repayment.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Review

For the six months ended 30 June 2004, the Group reported a turnover of HK\$8,969,000, as compared with HK\$17,402,000 for the same period last year. Due to the Group's strategic business restructuring, the Group was actively involved in the information localization business during the review period. As a result, the contribution from the general software business to the Group's total turnover decreased substantially. In addition, the information localization business was at the initial development stage, the Group's overall turnover was, therefore, affected.

The Group's overall profit margin increased to 67.9% for the six months ended 30 June 2004 while it was 57.9% in 2003. The reason was that the information localization business has a higher gross profit margin than the general software business and it contributed 83.3% to the overall turnover.

As a result of the sluggish market condition for the general software business, the Group has positively developed its translation software on which the information localization business is based and gained much success. This constitutes an increasing proportion of the Group's total turnover. However, as a result of increased professional expenses and staff costs after listing and the expansion in the information localization business, the Group recorded loss attributable to shareholders of HK\$2,466,000 against HK\$3,500,000 profit attributable to shareholders for the same period last year.

Financial Resources and Liquidity

As at 30 June 2004, the Group had bank balances and cash of approximately HK\$41 million and a short term bank loan of approximately HK\$14.1 million. The borrowings are repayable within one year and interest bearing at prevailing market rates.

Gearing Ratio

As at 30 June 2004, the total asset value of the Group was approximately HK\$88 million whereas the total liabilities was approximately HK\$17.5 million. The gearing ratio of the Group, calculated as total liabilities over total assets, was 19.8% (31 December 2003: 28%). The Directors are of the view that such low gearing ratio reflects an improved net assets position of the Group and the Group maintained a healthy 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

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 in 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 Company Limited ("Beijing Polypegasus") in which the Group holds 35% equity interest and contributed proportionately RMB3.5 million in the registered capital of Beijing Polypegasus. Beijing Polypegasus is principally engaged in the development and sales of computer software.

Future Significant Investment Plans and Expected Capital Sources

The details for estimated capital sources of the future significant investment plans or expenditure scheme were respectively included the prospectus of the Company dated 30 December 2003 (the section headed Business Objective). Save as disclosed therein, there was no other future significant investment plan as at 30 June 2004.

Pledge of Assets and Contingent Liabilities

As at 30 June 2004, the Group did not have any substantial pledge of assets and contingent liabilities.

Employee Information

As at 30 June 2004, the Group employed 189 staff (2003: 130 staff). The staff cost (including directors' remuneration) was approximately HK\$5,057,000 for the period under review (2003: approximately HK\$3,190,000). 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 laws and regulations of the PRC and Hong Kong including contributions to social security scheme of the PRC and the Mandatory Provident Fund Scheme of Hong Kong. The Group also provides training to staff regularly.

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 affected 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 localization business. Riding on the higher gross profit margin generated by the information localization business and the Group's rich experience in software developments and pool of technical expertise, the Group, therefore, is confident that the market potential for the information localization business will be much better than the general software business, generating more stable returns for the Group.

During the review period, the Group has attained satisfactory results in broadening its client base in the information localisation business. The Group successfully started co-operation with 30 prestigious PRC and Hong Kong corporations and institutions, including Dongfeng-Citroen, Kodak, Hawlett Packard, The Chinese University of Hong Kong, First Automobile and the Xinhua News Agency, mirroring the wide recognition over a relatively short period of time. Additionally, the Group has also taken on more projects with Fortune 500 corporations, including the well-recognized Toshiba Group and Caterpillar Group, which testified the strengthened brand name of "Lingoworld" in the international market. The Group has a clientele of 170 customers currently. As a large number of factories and corporations in industries including finance, automobile, machinery, energy and IT, kick off their projects in the second half of the year, the Group is expecting a solid foundation for business development in the period.

As for the general software business, technical product upgrades were introduced, enabling the incorporation of "Oriental Express" into "Lingoworld", thus boosting translation efficiency. "Oriental EasyDict" also achieved technological breakthrough allowing it to become a built-in function of mobile handsets, providing users greater convenience and efficiency and, at the same time, significantly lowering the possibility of piracy concern.

During the review period, the Group's custom-made solutions were to optimize their translation, security and Internet software application, hence realizing the full competitive potential of this business segment. Through the introduction of comprehensive software solutions, the Group has established a solid position in the multi-national and local corporate markets.

Established in May this year, Fujian MLTS is discussing with about 200 corporate clients on the possibility of co-operation. These clients are either from the government or among the top 1,000 enterprises in Fujian province. Furthermore, the implementation of "Fuzhou Internationalization" (福州國際化) propelled the further development of the Group's information localization.

Apart from strengthening its market presence in the PRC, the Group is also aggressively expanding its business overseas. During the review period, the Group decided that Singapore and Hong Kong would be its bases for its expansion of overseas markets.

Prospects

Growing at a healthy pace in the PRC and overseas markets and benefiting from the competitive advantages of "Lingoworld", the Group's information localization business has taken up an important position in the flourishing information localization industry in the PRC. Entering the third quarter of 2004, the Group expects the business segment to grow gradually presenting immense business potential.

With the advent of the 2007 Winter Asian Games and the 2008 Olympic Games, there are abundant opportunities for the information localization business in sports-related contents. Furthermore, with the influx of overseas corporations in the energy sector to China and the eagerness of international manufacturers to import facilities and set up joint ventures in China, this presented the Group with plenty of room for business development in the energy sector.

Leveraging on the technical support and outstanding translation expertise in the information localization business, the Group has started preliminary discussion regarding cooperation with internationally renowned corporations in the automobile, machinery and IT industries with the aim of further strengthening its information localization business. Additionally, the Group expects to make substantial achievements in the financial sector of Hong Kong in the second half of the year, boosting the Group's confidence in expanding its business overseas.

The Group plans to establish a company in Singapore, centralizing its plan to expand business overseas. At the same time, the Group is also actively preparing the establishment of a multi-language research centre. The Group is also considering the possibility to participate in the "Translation Hub Project" (翻譯樞紐工程), the digitization and compilation of the "World Chinese Dictionary" (《全球華人大詞典》) in Singapore.

The Group's information localization business is still in the developing stage. However, with further effort of the management to strengthen its foundation and the steady growth of the economy in the PRC, the Group will be having burgeoning business opportunities. The Group is confident that the information localization business will continue to be its major focus, and that it will become the leading information localization expert in the Greater China.

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 with the Group's actual business progress up to 30 June 2004 is set out below:

	Business objectives up to 30 June 2004 as stated in the Prospectus	Actual business progress up to 30 June 2004
<p>I Enhancement of existing products & services and development of new products & services</p> <p>(1) <i>Translation software (information localisation)</i></p> <ul style="list-style-type: none"> • Oriental Express • Yaxin CAT, Yaxin CATS and Yaxin SCAT • Lingoworld 	<p>Continue to expand vocabulary database of the software and enhance its translation quality by leveraging on the resources of "Lingoworld"</p> <p>To introduce CAR (Computer aided reading) which make use of language material system to attract more users</p> <p>To establish five translation centres throughout the PRC with targeted productivity of 200,000 words per day for each centre. To establish a bilingual (English-Chinese or Chinese-English) translation centre in Singapore</p>	<p>Successfully leveraged on the accumulated database of "Lingoworld" to enhance the translation quality of "Oriental Express" in relation to automobile, media, energy, finance and IT industries</p> <p>Leveraging on Yaxin CAT's core technology, the Group introduced an innovative CATS. On the original single tier software platform, the new CATS incorporated back-end OA management systems and a SCAT translation management systems that supports "Lingoworld". Yaxin CAT was upgraded from a separate supplementary translation software into a professional translation management system</p> <p>Established translation centers in Changchun, Shanghai, Fuzhou and Wuhan with productivity of 200,000 words per day</p>

Business objectives up to 30 June 2004 as stated in the Prospectus

Actual business progress up to 30 June 2004

I Enhancement of existing products & services and development of new products & services

- Translation services sales channel

Continue to recruit additional sales agencies in the PRC and conduct feasibility on establishing sales points in Singapore

PRC: Began to study the feasibility results of the establishment of sales agencies in Beijing, Tianjin and Lianyung Port

Singapore: Began discussion with related institutions on the business developments in Singapore

(2) Information Security Software

- Oriental Guard for PC

To launch "Oriental Guard 3.5" with comprehensive security solutions and to standardize e-certificate code

The development has been suspended due to the changes in general operating environment. See note below for more 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"

The development has been suspended due to the changes in general operating environment. See note below for more details.

- Information solutions and services

To roll out anti-virus solution services targeting large sized enterprises

The development has been suspended due to the changes in general operating environment. See note below for more details.

Business objectives up to 30 June 2004 as stated in the Prospectus

Actual business progress up to 30 June 2004

I Enhancement of existing products & services and development of new products & services

(3) General software

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Multimedia tools | <p>To enhance the Internet based value-added application for the existing products</p> | <p>The development has been suspended due to the changes in general operating environment. See note below for more details.</p> |
| <ul style="list-style-type: none"> • Internet application | <p>To launch digital entertainment platform based on digital magazine and “Web King”, integrating resources of online-music, magazines and games</p> | <p>The development has been suspended due to the changes in general operating environment. See note below for more details.</p> |

II Increase Market Coverage

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> • Increase market coverage in the PRC | <p>To establish sales offices in certain major cities and continue to explore the other regions e.g. Shanghai, Guangzhou, Wuhan, Nanjing, Hangzhou, Jinan, Zhengzhou</p> | <p>Established offices in Shanghai, Changchun and Wuhan. Offices in Shanghai and Changchun have begun trial operation and are providing support to the Group’s business. Offices in Shenzhen, Chengdu, Xian, etc will also be established in the second half of the year</p> |
| <ul style="list-style-type: none"> • Increase coverage in overseas markets | <p>To establish marketing and sales channels in Europe</p> | <p>Identified Singapore and Hong Kong as the supporting bases for the Group’s business developments overseas, aiming at a breakthrough especially in Europe and the U.S. The Group will first target at headquarters of 7,000 multi-national corporations in Singapore providing them with localized and internationalized services. The Group will also make use of its current products and resources to swiftly expand its overseas markets.</p> |

Business objectives up to 30 June 2004 as stated in the Prospectus

Actual business progress up to 30 June 2004

III Promote the Company's brand name

- Marketing and promotion activities

To launch marketing and sales activities to promote the Group's information localization and information security services and strengthen the corporate image of the Group

Launched 2 promotion events in the first half of the year

Held a press conference for brand reinvention and shifting of business focus to information localization business

Leveraged on the establishment of the Shanghai Research Centre to organize a translation forum, further elevating its position in the translation industry

IV Potential acquisition and strategic alliances

To seek potential acquisition or investment in various translation companies

Discussion underway with various corporations

Note:

As the whole software market comes to a standstill and 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 its focus to expand Lingoworld.

USE OF PROCEEDS

The net proceeds for issue of new shares on 9 January 2004 received by the Company were approximately HK\$18.5 million. During the period between the Latest Practicable Date ("LPD") as defined in the Prospectus (being 23 December 2003) and 30 June 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 30 June 2004 (HK\$'000)	Actual use of proceeds from the LPD to 30 June 2004 (HK\$'000)
Improvement in research and development of existing and new products	2,200	1,490
Increase market coverage in the PRC and overseas	2,200	1,600
Promotion of the Group's brand name	2,900	2,400
Potential acquisition and strategic alliances	4,000	—
	<hr/>	<hr/>
Total	11,300	5,490

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 were applied in accordance with the actual development of the market:

1. Certain promotional activities were postponed due to the adjustments in business progress, therefore proceeds applied in this area is less than expected.
2. The remaining balance of net proceeds of approximately HK\$3 million is reserved as general working capital of the Group while approximately HK\$0.3 million has been utilized during the review period.
3. The remaining net proceeds as at 30 June 2004 was approximately HK\$12.7 million which has been placed as interest bearing deposits in banks in the PRC.

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

As at 30 June 2004, none of the Directors had any interest and short position in the shares of the Company ("Shares") or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

A. Substantial Shareholders

As at 30 June 2004, the following entities had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 10% or more of the Shares:

Name	Capacity	Number of Shares <i>(Note 1)</i>	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 <i>(note 2)</i>	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 <i>(note 3)</i>	22,528,484(L)	11.26%
Shanghai Jiao Tong University	Interest of a controlled corporation <i>(note 3)</i>	22,528,484(L)	11.26%
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 interests in the Shares were through Futart, the entire issued share capital of which was beneficially owned by Start Technology, a company whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of Start Technology was owned as to approximately 25.05 per cent. by Leading Value Industrial Limited which was in turn owned as to 50 per cent. by Mr. Sze Wai, Marco, an executive Director and 50 per cent. by Mr. Li Kwong Keung.
- The interests in the Shares were held through Simplex, the entire issued share capital of which was beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group was owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiaoda Enterprise Management Centre* (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

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

As at 30 June 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
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 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 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 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. No options had been granted to any directors or employees under the Scheme up to the date of this report.

SPONSOR'S INTEREST

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

At 30 June 2004, as notified and updated by CPY Capital pursuant to Rule 6.35 of the GEM Listing Rules, CPY Capital, its directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

COMPETING INTERESTS

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 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 30 June 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 30 June 2004.

AUDIT COMMITTEE

The Company set up an audit committee on 25 November 2003 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Song Jing Sheng and Mr. Wang Tian Ye and Mr. Wang Tian Ye is the chairman of the audit committee. The Group's financial statements for the six months ended 30 June 2004 have been reviewed by the audit committee, who are of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

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

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

On behalf of the Board
Sze Wai, Marco
Chairman

Beijing, 13 August 2004