



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, multi-cultural feel.

# THIRD QUARTERLY REPORT 2004

\* for identification only

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

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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

- For the three months and the nine months ended 30 September 2004, the Group's unaudited turnover were HK\$2,156,000 and HK\$11,125,000 respectively, representing decreases of 67.7% and 53.8% from those of the corresponding periods in 2003 respectively.
- The decrease in turnover during the nine months ended 30 September 2004 was mainly due to the fact that (i) the software development business of the Group was gradually suspended as a result of the restructuring of the Group's business; (ii) some custom-made translation software had been installed for enterprises but not yet certified by the customers, therefore the relating sales amounts are not recognized as income.
- For the three months and the nine months ended 30 September 2004, the Group's unaudited loss attributable to shareholders were HK\$10,097,000 and HK\$12,563,000 respectively, while the Group recorded profits attributable to shareholders of HK\$1,646,000 and HK\$5,146,000 for the corresponding periods in 2003 respectively.
- The decrease in profit attributable to shareholders was primarily due to the substantial provision of accounts receivables and provision for obsolete stock for general software, and the increase in the operation expenses after the Group's listing.
- The Board does not recommend the payment of an interim dividend for the period under review (2003: Nil).

### THIRD QUARTERLY RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the nine months and the three months ended 30 September 2004, together with the comparative figures for the corresponding periods in 2003, as follows:

		Nine months ended 30 September		Three months ended 30 September	
	Note	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	11,125	24,068	2,156	6,666
Cost of sales		(6,352)	(9,213)	(3,471)	(1,891)
<b>Gross profit/(loss)</b>		<b>4,773</b>	14,855	<b>(1,315)</b>	4,775
Other revenue		1,045	1,579	73	592
Selling expenses		(7,788)	(4,958)	(4,973)	(1,579)
Research and development costs		(1,546)	(1,738)	(518)	(584)
Administrative expenses		(8,527)	(3,981)	(3,136)	(1,270)
<b>(Loss)/profit from operations</b>		<b>(12,043)</b>	5,757	<b>(9,869)</b>	1,934
Net finance costs		(474)	(290)	(227)	(121)
Share of losses of associates		(198)	-	(198)	-
<b>(Loss)/profit from ordinary activities before taxation</b>		<b>(12,715)</b>	5,467	<b>(10,294)</b>	1,813
Taxation	3	(111)	(321)	-	(167)
<b>(Loss)/profit from ordinary activities after taxation</b>		<b>(12,826)</b>	5,146	<b>(10,294)</b>	1,646
Minority interests		263	-	197	-
<b>(Loss)/profit attributable to shareholders</b>		<b>(12,563)</b>	5,146	<b>(10,097)</b>	1,646
<b>Interim dividends</b>		-	-	-	-
<b>(Loss)/earnings per share</b>	5				
Basic		<b>(6.28) cents</b>	3.96 cents	<b>(7.77) cents</b>	1.27 cents
Diluted		N/A	N/A	N/A	N/A

Notes:

**1. Basis of preparation**

The Group's unaudited results have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in the GEM Listing Rules.

**2. Turnover**

The principal activities of the Group are the provision of custom-made translation services solution with localized tools and services. 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.

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

	<b>Nine months ended 30 September</b>		<b>Three months ended 30 September</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000	<b>2004 HK\$'000</b>	2003 HK\$'000
Custom-made solutions	<b>5,204</b>	3,317	<b>321</b>	1,028
Translation services	<b>4,398</b>	3,516	<b>1,814</b>	3,516
General software	<b>997</b>	13,776	<b>-</b>	381
Licensing fee	<b>525</b>	3,459	<b>20</b>	1,741
	<b>11,124</b>	24,068	<b>2,155</b>	6,666

**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 for the nine months and three months ended 30 September 2004 and 2003.

Taxation in the consolidated income statement represents the provision of PRC income tax for a subsidiary for the nine months and three months ended 30 September 2004 and 2003.

**4. Dividends**

No dividend has been paid or declared by the Company during the period under review (2003: Nil).

**5. Loss/earnings per share**

(a) *Basic loss/earnings per share*

The calculation of basic loss/earnings per share for the nine months and three months ended 30 September 2004 were based on the net loss of HK\$12,563,000 and HK\$10,097,000 respectively (2003: net profit of HK\$5,146,000 and HK\$1,646,000 respectively) over the weighted average number of ordinary shares in issue of 200,000,000 for the nine months and three months ended 30 September 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 September 2004 and the period ended 30 September 2003.

## 6. Reserves

	Share premium HK\$'000	Capital surplus HK\$'000	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	–	15,090	2,134	14,320	31,544
Issuance of shares for the acquisition of subsidiaries	13,557	–	–	–	13,557
Profit for the period	–	–	–	5,146	5,146
At 30 September 2003	<u>13,557</u>	<u>15,090</u>	<u>2,134</u>	<u>19,466</u>	<u>50,247</u>
At 1 January 2004	13,557	15,090	2,927	21,671	53,245
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	–	–	–	(12,563)	(12,563)
At 30 September 2004	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>9,108</u>	<u>57,349</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### Overall Review

In view of the rapid recession of the general software industry in the People's Republic of China ("PRC"), and the enormous potential of the translation industry in the PRC, at the beginning of the financial year, the Directors decided to put emphasis on the development of the information localisation business of the Group, which includes translation services, information localisation and internationalisation.

During the nine months ended 30 September 2004, loss attributable to shareholders was HK\$12,563,000 against profit of HK\$5,146,000 attributable to shareholders of the corresponding period last year. Loss per share amounted to HK6.3 cents. Due to the gradual suspension of the software development business and the substantial provision of HK\$2,505,000 and HK\$2,735,000 respectively made for a trade receivable aged over 360 days and inventories in this business segment, the Group's overall results was affected.

#### Turnover

For the three months and the nine months ended 30 September 2004, the Group recorded a turnover of HK\$2,156,000 and HK\$11,125,000 respectively, representing decreases of 67.7% and 53.8% from those of the corresponding periods of 2003 respectively. The decreases were mainly due to the fact that the general software business was gradually suspended as a result of the restructuring of the Group's business. In addition, some custom-made translation software had been installed for enterprises but not yet certified by the customers, therefore the relating sales amount are not recognized as income.

The sales of custom-made solutions and translation services business grew to HK\$5,204,000 and HK\$4,398,000 respectively for the nine months ended 30 September 2004, representing increases of 56.9% and 25.1% respectively when compared with those of the corresponding period last year. As for the general software business, a substantial decrease in turnover of 92.8% to approximately HK\$997,000 was recorded. The contribution from this business segment to the Group's total turnover shrank from 57.2% for the corresponding period last year to 9.0% this year. Sales from licensing fee also decreased by 84.8% compared from that of the same period last year to approximately HK\$525,000.

#### *Gross profit*

For the three months and the nine months ended 30 September 2004, the Group recorded a gross loss of HK\$1,315,000 and gross profit of HK\$4,737,000 respectively. The gross profit margin for the nine months ended 30 September 2004 decreased by 33.8% from that of the corresponding period in the year 2003. The significant decrease in gross profit was mainly due to the substantial provision for obsolete stock of general software of HK\$2,735,000.

#### *Operating costs and expenses*

For the nine months ended 30 September 2004, the selling expenses increased by 57.1% as compared with that of the same period last year. This is mainly due to the significant increase in provision for doubtful debts for general software business, as many agents and distributors were closed down as a result of the rapid recession of the general software industry in the PRC. The administrative expenses increased by 114.1% due to the increase in daily operation expenses including professional fees and travelling expenses after the Group's listing on GEM in January 2004.

#### *Financial Resources and Liquidity*

As at 30 September 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 bear at prevailing market rate. Taking into consideration the current financial resources, the Group shall have adequate capital for its continual operation and development.

#### *Gearing Ratio*

As at 30 September 2004, the total asset value of the Group was approximately HK\$83.6 million whereas the total liabilities was approximately HK\$21.9 million. The gearing ratio of the Group, calculated as total liabilities over total assets, was 26.2% (31 December 2003: 28%).

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

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

#### *Pledge of Assets and Contingent Liabilities*

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

#### **Business Review**

Since its listing in the beginning of this year, the Group has been striving to become the best information localization specialist in the Greater China Region. To achieve this goal, the Group implemented strategic business restructuring which included curbing all further development projects for general software and information security software. Although the overall results of the Group is expected to be affected in the short term, the Board is fully supportive of this business restructuring and has been pressing ahead with it at full speed. The Group is confident that the restructuring will enable the Group to centralize its resources and focus on developing the lucrative information localization business in the long run.

Efforts were made by the Group during the period under review to pave way for entering the financial sector in Hong Kong and the PRC. It has started preliminary discussion regarding cooperation with Beauhorse Professional Translation Ltd. (“Beauhorse”), a financial translation company in Hong Kong. With the combined advantage of SJTU’s unique management expertise in translation management technology and Beauhorse’s extensive expertise and strong customer network, the Group will be able to expand its market share substantially. The alliance is expected to further enhance the competitive edge and strength of the Group in the financial sector. Established in 1990, Beauhorse specializes in providing translation services covering a wide array of financial and legal documents, such as prospectuses, annual reports and contracts to corporate clients and listed companies in Hong Kong and the PRC.

To introduce the information localization business to foreign-invested enterprises in the manufacturing and energy sectors, the Group started discussion with a French enterprise Alstom regarding information localization services for operations, such as construction of power plant and manufacture of turbine. A letter of intent to this respect has been signed between the parties.

The advent of the 2007 Winter Asian Games and the 2008 Olympic Games provides abundant opportunities for the industry. To fully capture these opportunities, the Group actively developed the information localization business in sports-related contents during the period by participating in the preparation of the Sino-Japan-Korea Sports Conference.

To centralize coordination of its overseas business expansion, the Group initiated a series of discussions with related institutions in Singapore with regard to its business development in the country during the period under review. The Group expects more in-depth discussion for cooperation details which will be finalized within a short period of time.



## **Prospects**

The Group plans to invest more resources in developing its information localization business. In addition to the financial sector, clients engaging in the four fastest growing industries in the PRC, namely the automobile, machinery manufacturing, information technology, and construction industries, will remain as the Group's business targets. Through Lingoworld, the Group is currently providing information localization service in terms of Chinese and Arabian manuals to renowned new clients in the automobile industry such as Toyota Motor, Jinan Heavy-duty Automobile and Chang Feng Motor. In the meantime, the Group is also considering developing multilingual websites.

Despite its short history, Lingoworld has initially demonstrated its language conversion capabilities, and its unparalleled competitive advantages of scalability and standardized operational processes. Leveraging on its outstanding competitive advantages, Lingoworld has gained wide recognition of over 180 clients, which include well-known multinational enterprises.

Through forming strategic alliances and maintaining the cooperative relationship with renowned IT corporations, industry associations and academic institutions inside and outside the PRC, the Group successfully enhanced its market share in the industry. Looking ahead, riding on the steady growth of the Chinese economy, the management will further strengthen the foundation of the Group's information localization business to foster business opportunities for local and overseas institutions in the country. The Group is confident that it will become the leading information localization expert in the Greater China Region and will reach its word processing target of up to 10 million words per day.

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

As at 30 September 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 September 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:

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
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:*

1. The letter "L" denotes the entity's interests in the Shares.
2. The interests in the Shares were 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 30.05 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.
3. 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.

\* For identification purpose only

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

As at 30 September 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 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. 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 sponsor 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, or until the sponsor agreement is terminated upon the terms and conditions set out therein. CPY Capital will receive fees for acting as the Company's continuing sponsor.

At 30 September 2004, as notified and updated by CPY Capital pursuant to Rule 6.36 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 September 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 September 2004.

## **APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Company has appointed Mr. Ho Chen-yu as an independent non-executive director on 28 September 2004. Mr. Ho Cheu-yu was also appointed as a member of the audit committee.

## **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 three independent non-executive directors, namely Mr. Song Jing Sheng, Mr. Wang Tian Ye and Mr. Ho Chen-yu. Mr. Wang Tian Ye is the chairman of the audit committee. The Group's financial statements for the period ended 30 September 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, 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, Wang Tian Ye and Ho Chen-yu

By order of the Board  
**Sze Wai, Marco**  
*Chairman*

Hong Kong, 12 November 2004