



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)



THIRD QUARTERLY REPORT **2005**

* 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.

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The Stock Exchange takes no responsibility for the contents of this report, 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 report.

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, 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.

THIRD QUARTERLY UNAUDITED RESULTS

The board of directors of the Company (the "Board") hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the nine months and the three months ended 30 September 2005, together with the comparative figures for the corresponding periods in 2004, as follows:

Condensed consolidated income statement

	Note	Nine months ended 30 September		Three months ended 30 September	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover	2	3,005	11,125	1,299	2,156
Cost of sales		(1,348)	(6,352)	(671)	(3,471)
Gross profit		1,657	4,773	628	(1,315)
Other revenue		64	1,045	3	73
Selling expenses		(3,953)	(7,788)	(1,283)	(4,973)
Research and development costs		(1,737)	(1,546)	(482)	(518)
Administrative expenses		(10,704)	(8,527)	(2,775)	(3,136)
Loss from operations		(14,673)	(12,043)	(3,909)	(9,869)
Net finance costs		(1,237)	(474)	(826)	(227)
Share of loss of associates		(552)	(198)	(199)	(198)
Loss before taxation		(16,462)	(12,715)	(4,934)	(10,294)
Taxation	3	-	(111)	-	-
Loss after taxation		(16,462)	(12,826)	(4,934)	(10,294)
Attributable to:					
Equity holders of the parent		(16,169)	(12,563)	(4,829)	(10,097)
Minority interests		(293)	(263)	(105)	(197)
Loss after taxation		(16,462)	(12,826)	(4,934)	(10,294)
Loss per share					
Basic (cents)	5	(8.08)	(6.28)	(2.41)	(7.77)
Diluted (cents)		N/A	N/A	N/A	N/A

Notes:

1. Basis of preparation

The Group's unaudited condensed consolidated financial statement has been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Accounting Standards ("HKAS") 34 "Interim Financing Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statement has been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, the following new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (herein collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning or after 1 January 2005.

The following new and revised HKFRSs adopted by the Group during the period have resulted in changes in the Group's accounting policies which will have effects on the results of the Group for the current or prior accounting period:

HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to the adoption, the provision of share options to employees did not result in a change to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date was amortised over the subsequent relevant vesting period.

The amount charged to the income statement as a result of the change of policy amounts to HK\$1,831,500 for the nine months ended 30 September 2005 (2004: Nil), with the corresponding amounts credited to the share options reserve.

Details of the employee share option scheme can be found in the "Share Option Scheme" section in this report.

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies which will affect the results of the Group.

2. Turnover and segment information

The principal activity of the Group is the provision of information localisation services. 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:

	Nine months ended 30 September		Three months ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Information localisation services	2,999	4,398	1,299	1,814
General software	6	997	-	-
Custom-made solutions	-	5,204	-	321
Licensing fee	-	525	-	20
	3,005	11,124	1,299	2,155

3. Taxation

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the period ended 30 September 2005 and the period ended 30 September 2004.

4. Dividends

No dividend has been paid or declared by the Company for the period ended 30 September 2005 (2004: Nil).

5. Loss per share

(a) Basic loss per share

The calculation of basic loss per share for the nine months and three months ended 30 September 2005 were based on the net loss of HK\$16,169,000 and HK\$4,829,000 respectively (2004: net loss of HK\$12,563,000 and HK\$10,097,000 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 2005 (2004: 200,000,000).

(b) Diluted loss per share

There were no potential dilutive ordinary shares in existence during the period ended 30 September 2005 and the period ended 30 September 2004.

6. Reserves

	Share premium HK\$'000	Capital surplus HK\$'000	General reserve HK\$'000	Share Options 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>-</u>	<u>(3,825)</u>	<u>44,416</u>
At 1 January 2005	30,224	15,090	2,927	-	(3,825)	44,416
Recognised	-	-	-	1,831	-	1,831
Loss for the period	-	-	-	-	(16,169)	(16,169)
At 30 September 2005	<u>30,224</u>	<u>15,090</u>	<u>2,927</u>	<u>1,831</u>	<u>(19,994)</u>	<u>30,078</u>

MANAGEMENT DISCUSSION AND ANALYSIS**Overall Review**

For the nine months ended 30 September 2005, the Group recorded a turnover of HK\$3,005,000, as compared with HK\$11,125,000 for the same period in 2004. Loss attributable to equity holders of the parent was approximately HK\$16,169,000 as compared with HK\$12,563,000 for the corresponding period in 2004.

The enlargement of the loss attributable to equity holders of the parent was the result of the Group's business restructuring strategy as the management has put emphasis on the relatively higher margin business, information localisation. However, the business was still stagnant during the period as the market is highly competitive and the internal resources are limited for further expansion. As a result, the overall turnover drops drastically and the management has identified various investment opportunities to improve the cash flow position of the Group. Also, the management has put stringent measures to reduce the operating costs and looks for potential strategic partners in forming strategic alliance to alleviate and improve the current status of the Group.

Financial Resource and Liquidity

As at 30 September 2005, the Group had bank balances and cash of approximately HK\$749,000 and a short term bank loan of approximately HK\$13,679,000. The borrowings are repayable within one year and interest bearing at prevailing market rates.

Gearing Ratio

As at 30 September 2005, the total asset value of the Group was approximately HK\$64,174,000 whereas the total liabilities was approximately HK\$30,301,000. The gearing ratio of the Group, calculated as total liabilities over total assets, was 47.2% (31 December 2004: 32.3%). The Directors are of the view that 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

The Group has no significant investments during the review period.

Pledge of Assets and Contingent Liabilities

As at 30 September 2005, the Group did not have any substantial pledge of assets and contingent liabilities.

Business Review

During the review period, the Group is principally engaged in the information localisation business, including the provision of translation services using the translation software developed by the Group to various industries in the People's Republic of China ("PRC"), such as automobile, information technology, energy, machinery and construction. Compared with the corresponding period last year, for the reason that the severe market competition and the drop of the orders from our significant customers, the translation works handled by the Group decreased significantly. During the course of business transformation, the Group focuses on providing professional translation services to customers of larger scale. However, these customers usually adopt tendering procedure for new orders with great emphasis on pricing, therefore the main obstacle we are facing before the establishment of our comprehensive core-operating platform is how to lower our costs, which undermined our business development pace and performance. During the year, the Group had been identifying other business sectors with a view to improve our performance, and acquired 100% equity interests in New Champion International Ltd this June. The optical disc jukebox business of its PRC associated company can be applied to various sectors requiring large data storage, which has enormous potential in the Chinese market. The management believes that, in the near future, the optical disc jukebox and its related technology developed by the associated company will be widely used in the PRC market.

Prospects

With its expertise and resources in information localisation business accumulated over the years, the Group will further implement the strategic deployment of information localisation solutions. With its outstanding translation professionals and customer base, coupled with its strength in technology research and development, the Group expects to attain further development in information localisation business with better results.

In addition, the Group is proactively identifying opportunities beyond the information localisation business to enhance operational performance, strengthen business foundation and improve service quality. We look forward to achieving more satisfactory returns for our investors and shareholders.

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

As at 30 September 2005, the interests and short positions of the Directors or the chief executive in the shares of the Company ("Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Directors	Nature of Interest	Number and class of securities <i>(Note 1)</i>
He En Pei	Beneficial interest	1,770,000 Shares (L) <i>(Note 2)</i>
He Zhan Tao <i>(Note 3)</i>	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.
3. Mr. He Zhan Tao has ceased to act as a Director with effect from 1 October 2005.

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

Substantial Shareholders

As at 30 September 2005, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Futart Industry Company Limited ("Futart")	Beneficial owner	64,355,828 (L)	32.18%
Fintronics Holdings Company Limited ("Fintronics")	Interest of a controlled corporation (Note 2)	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 (Note 3)	22,528,484 (L)	11.26%
Shanghai Jiao Tong University	Interest of a controlled corporation (Note 3)	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 are held through Futart, the entire issued share capital of which is beneficially owned by Fintronics, a company whose shares are listed on the Main Board of the Stock Exchange. Fintronics is owned as to approximately 25.05 per cent by Leading Value Industrial Limited which is in turn owned by Mr. Sze Wai, Marco, an executive Director.
3. The interests in the Shares are held through Simplex, the entire issued share capital of which is 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.

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Other Shareholders

The Company has not been notified of other interests or short positions of any other person (other than the Directors and chief executive 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 30 September 2005.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 25 November 2003 whereby the Directors may at their discretion invite any employees, directors, suppliers, customers, advisers, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any member of the Group or any invested entities, to take up options to subscribe for Shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 9 January 2004. On 17 January 2005, options entitling the holders thereof to subscribe for an aggregate of 7,500,000 shares were granted to Directors, employees, technical consultants, initial management shareholders and a substantial shareholder of the Company. The fair value of options granted on 17 January 2005 is determined to be HK\$0.2442 at the grant date. On 10 October 2005, 12,800,000 share options were granted to Directors, employees and consultants of the Company.

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

Share Price at the Grant Date on 17 January 2005	HK\$0.445
Exercise Price	HK\$0.45
Expected Volatility	75% per annum
Option Life	10 years
Expected Dividend Yield	0% per annum
Risk-free Interest Rate	2.89% per annum
Early Exercise Assumption	Option holders will exercise when the share price is at least 325% of the exercise price

The volatility rate of the share price of the Company was determined with reference to the movement of selected comparators' share prices during the period from November 1999 to July 2005. Taking into account the probability of leaving employment and early exercise behavior stated above, the expected life of the grant of options was estimated to be 5.24 years. The risk-free interest rate is taken to be the linearly interpolated yield using Hong Kong Exchange Fund Notes as at 17 January 2005. The movement of the share options during the period ended 30 September 2005 are as follows:

Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options	
			Granted during the period	Outstanding at 30 September 2005
Directors				
17 January 2005	17 January 2005 to 16 January 2015	0.45	4,020,000	4,020,000
Employees				
17 January 2005	17 January 2005 to 16 January 2015	0.45	3,480,000	3,480,000

COMPLIANCE ADVISER'S INTEREST

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

At 30 September 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 nine months ended 30 September 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 process and internal controls of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Wang Tian Ye, Mr. Xu Shi Hong and Mr. Wang Bin. Mr. Wang Tian Ye is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the quarterly report for the nine months ended 30 September 2005, with the Directors.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2005, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

CORPORATE GOVERNANCE

The Company has been looking for candidates to be the members of the remuneration committee and the nomination committee of the Company. The Board estimates that such appointments will be completed within a short period. Save as disclosed above, throughout the period, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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

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

On behalf of the Board
Sze Wai, Marco
Chairman

Hong Kong, 11 November 2005