



## **SJTU SUNWAY SOFTWARE INDUSTRY LIMITED**

**交大銘泰軟件實業有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2003**

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*This announcement, for which the directors (the “Directors”) of SJTU Sunway Software Industry Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*\* For identification purpose only*

## RESULTS

The board of Directors (the “Board”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st December, 2003, together with the comparative figures for the corresponding period in 2002, as follows:

### Consolidated income statement

	<i>Note</i>	<b>2003</b> <b>HK\$</b>	2002 <i>HK\$</i>
Turnover	3	<b>35,502,319</b>	40,614,887
Cost of sales		<b>(11,910,108)</b>	(15,113,833)
Gross profit		<b>23,592,211</b>	25,501,054
Other revenue	4	<b>2,246,769</b>	3,085,397
Selling expenses		<b>(8,246,410)</b>	(11,214,800)
Research and development costs	5	<b>(2,545,448)</b>	(2,694,059)
Administrative expenses		<b>(6,185,542)</b>	(6,039,075)
Profit from operations		<b>8,861,580</b>	8,638,517
Net finance (costs)/income	6(i)	<b>(208,037)</b>	122,379
Profit from ordinary activities before taxation	6	<b>8,653,543</b>	8,760,896
Taxation	7	<b>(509,068)</b>	–
Profit attributable to shareholders		<b>8,144,475</b>	8,760,896
Earnings per share	10		
Basic		<b>6.26 cents</b>	6.74 cents
Diluted		<b>N/A</b>	N/A

Notes:

## 1. Reorganisation

The Company was incorporated in the Cayman Islands on 28th June, 2002 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) which was completed on 25th November, 2003 to rationalise the group structure in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group.

## 2. Basis of presentation

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated results have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 2.127 “Accounting for Group Reconstructions”, under which the Company was the holding company of the Group for both years presented, rather than from 25th November, 2003. Under these circumstances, the results of the Group for the years ended 31st December, 2003 and 2002 include the results of the Company and its subsidiaries with effect from 1st January, 2002 or since their respective dates of incorporation/establishment, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

## 3. Turnover

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.

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

	<b>2003</b> <b>HK\$</b>	2002 HK\$
General software	<b>22,110,418</b>	30,585,582
Licensing fee	<b>5,935,737</b>	7,189,358
Custom-made solutions	<b>2,817,376</b>	2,591,917
Translation services	<b>4,638,788</b>	248,030
	<b><u>35,502,319</u></b>	<b><u>40,614,887</u></b>

## 4. Other revenue

Other revenue mainly represents the value added tax (“VAT”) refund.

Pursuant to the relevant approval document issued by the tax authorities of Hai Dian District, Beijing, a subsidiary of the Group operated in the area is entitled to a refund of VAT on the sales of self developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sale of self-developed software. The amount of VAT refund is calculated on a monthly basis and recognised as other revenue when the refund is approved by the relevant tax authorities.

## 5. Research and development costs

	2003 HK\$	2002 HK\$
Staff costs	1,554,103	2,583,277
Pre-operating costs of the translation centre	–	934,089
Software quality certification	73,491	593,679
Rental expenses	112,627	579,627
Software acquired for development	311,132	–
	<u>2,051,353</u>	<u>4,690,672</u>
Less: amount capitalised	(1,356,223)	(3,334,137)
	<u>695,130</u>	<u>1,356,535</u>
Add: amortisation of intangible assets	1,850,318	1,337,524
	<u>2,545,448</u>	<u>2,694,059</u>

## 6. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2003 HK\$	2002 HK\$
(i) Net finance costs/(income):		
Interest income	(340,960)	(403,594)
Exchange losses/(gains)	6,598	(9)
Interest on bank advances and other borrowings repayable within five years	532,417	274,328
Other borrowing costs	9,982	6,896
	<u>208,037</u>	<u>(122,379)</u>
(ii) Staff costs:		
Salaries, wages and allowances	6,218,117	3,753,717
Contributions to retirement schemes	416,817	437,632
	<u>6,634,934</u>	<u>4,191,349</u>
Average number of employees during the year	<u>164</u>	<u>185</u>

Personnel expenses include Directors' remuneration totalling HK\$620,457 and HK\$293,627 for the years ended 31st December, 2003 and 31st December, 2002 respectively.

	<b>2003</b> <b>HK\$</b>	2002 <b>HK\$</b>
(iii) Other items:		
Cost of inventories*	<b>10,577,808</b>	14,854,216
Auditors' remuneration	<b>450,000</b>	23,585
Depreciation	<b>715,688</b>	838,795
Amortisation of intangible assets	<b>1,850,318</b>	1,337,524
Loss on disposal of fixed assets	<b>72,611</b>	7,063
Operating lease charges in respect of properties	<b>1,754,449</b>	2,371,950
Provision for bad and doubtful debts	<b>—</b>	408,583

\* *Cost of inventories includes write back of provision for inventories of HK\$436,086 and a provision of HK\$21,402 for the years ended 31st December, 2003 and 31st December, 2002 respectively.*

## 7. Taxation

(a) Taxation in the consolidated income statement represents:

	<b>2003</b> <b>HK\$</b>	2002 <b>HK\$</b>
<b>Current tax – Income tax in the People's Republic of China ("PRC")</b>		
Tax for the year	<b>509,068</b>	—
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>—</b>	—
	<b>509,068</b>	—

(i) 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 years ended 31st December, 2003 and 2002.

Profits of the subsidiary in the PRC are subject to PRC income tax. As a foreign invested enterprise, the subsidiary is granted certain tax relief, under which it is entitled to income tax exemption for the first three profit making years, i.e. the period from 1st January, 2000 to 31st December, 2002. The subsidiary is subject to PRC income tax at 7.5% for the period from 1st January, 2003 to 31st December, 2005 and 15% from 1st January, 2006 onwards, which is the tax rate applicable to high technology enterprises in Hai Dian District, Beijing.

Taxation in the consolidated income statement represents the provision of PRC income tax for a subsidiary during the year ended 31st December, 2003.

(ii) No provision for deferred tax has been made during the years ended 31st December, 2003 and 2002 as the tax effect of temporary differences is immaterial.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003		2002	
	HK\$	%	HK\$	%
Profit before tax	<u>8,653,543</u>		<u>8,760,896</u>	
Notional tax on profit before tax, calculated at the rates applicable to profits in the PRC	649,016	7.5	–	–
Tax effect of non-deductible expenses	30,644	0.4	–	–
Tax effect of non-taxable revenue	<u>(170,592)</u>	<u>(2.0)</u>	<u>–</u>	<u>–</u>
Actual tax expense	<u>509,068</u>	<u>5.9</u>	<u>–</u>	<u>–</u>

## 8. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 HK\$	2002 HK\$
Salaries and other emoluments	603,165	291,725
Contributions to retirement scheme	<u>17,292</u>	<u>1,902</u>
	<u>620,457</u>	<u>293,627</u>
Number of Directors	<u>11</u>	<u>4</u>

The executive Directors received individual emoluments of approximately HK\$42,000 (2002: Nil), HK\$42,000 (2002: Nil), HK\$21,000 (2002: Nil), HK\$21,000 (2002: Nil), HK\$142,222 (2002: HK\$92,464), HK\$131,027 (2002: HK\$87,955), HK\$88,104 (2002: HK\$56,604), HK\$88,104 (2002: HK\$56,604) and HK\$21,000 (2002: Nil).

Included in the Directors' remuneration were fees of HK\$12,000 (2002: Nil) and HK\$12,000 (2002: Nil) paid to the independent non-executive Directors during the year.

No emoluments were paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No Director has waived or agreed to waive any emoluments during the years ended 31st December, 2003 and 2002.

## 9. Dividends

No dividend has been paid or declared by the Company since its incorporation.

## 10. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$8,144,475 (2002: HK\$8,760,896) and the 130,000,000 ordinary shares in issue and issuable comprising 20,000,000 ordinary shares in issue as at 31st December, 2003 and 110,000,000 ordinary shares to be issued pursuant to the capitalisation issue as if these shares were outstanding throughout the period from 1st January, 2002 to 31st December, 2003.

(b) *Diluted earnings per share*

There were no potential dilutive ordinary shares in existence during the years ended 31st December, 2003 and 2002.

## MOVEMENT IN RESERVES

	Share premium HK\$	Capital surplus HK\$	General reserve HK\$	Retained profits HK\$	Total HK\$
At 1st January, 2002	–	15,089,717	1,168,163	6,524,531	22,782,411
Profit for the year	–	–	–	8,760,896	8,760,896
Transfer to reserves	–	–	965,839	(965,839)	–
	<u>–</u>	<u>15,089,717</u>	<u>1,168,163</u>	<u>6,524,531</u>	<u>22,782,411</u>
At 31st December, 2002	<u>–</u>	<u>15,089,717</u>	<u>2,134,002</u>	<u>14,319,588</u>	<u>31,543,307</u>
At 1st January, 2003	–	15,089,717	2,134,002	14,319,588	31,543,307
Profit for the year	–	–	–	8,144,475	8,144,475
Issuance of shares for the acquisition of subsidiaries	13,557,045	–	–	–	13,557,045
Transfer to reserves	–	–	793,117	(793,117)	–
	<u>13,557,045</u>	<u>–</u>	<u>793,117</u>	<u>(793,117)</u>	<u>–</u>
At 31st December, 2003	<u>13,557,045</u>	<u>15,089,717</u>	<u>2,927,119</u>	<u>21,670,946</u>	<u>53,244,827</u>

## SEGMENT INFORMATION

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.

### Business segments

(i) *Sale of general software*

The development and sale of a range of self-developed standardised software products.

(ii) *Licensing fee*

To grant the right to the customers for making an agreed number of copies of the patented software.

(iii) *Custom-made solutions*

To develop and implement custom-made solutions which are specifically designed and developed for the specific needs and requirements of a particular customer.

(iv) *Translation services*

To provide translation and information localisation services.

**Year ended 31st December, 2003**

	General software HK\$	Licensing fee HK\$	Custom-made solutions HK\$	Translation services HK\$	Inter-segment elimination HK\$	Consolidated HK\$
Revenue from external customers	<u>22,110,418</u>	<u>5,935,737</u>	<u>2,817,376</u>	<u>4,638,788</u>	<u>-</u>	<u>35,502,319</u>
Segment result	<u>3,794,947</u>	<u>5,592,187</u>	<u>2,581,526</u>	<u>3,106,250</u>	<u>-</u>	<u>15,074,910</u>
Unallocated operating income and expenses						<u>(6,213,330)</u>
Profit from operations						<u>8,861,580</u>
Net finance costs						<u>(208,037)</u>
Taxation						<u>(509,068)</u>
Profit attributable to shareholders						<u>8,144,475</u>
Depreciation and amortisation for the year	<u>2,566,006</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Significant non-cash expenses (other than depreciation and amortisation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Segment assets	<u>18,100,053</u>	<u>7,241,177</u>	<u>1,265,744</u>	<u>3,105,294</u>	<u>-</u>	<u>29,712,268</u>
Unallocated assets						<u>44,940,686</u>
Total assets						<u>74,652,954</u>
Segment liabilities	<u>1,583,261</u>	<u>65,543</u>	<u>31,110</u>	<u>51,222</u>	<u>-</u>	<u>1,731,136</u>
Unallocated liabilities						<u>19,476,991</u>
Total liabilities						<u>21,208,127</u>
Capital expenditure incurred during the year	<u>311,132</u>	<u>-</u>	<u>-</u>	<u>-</u>		

## Year ended 31st December, 2002

	General software HK\$	Licensing fee HK\$	Custom-made solutions HK\$	Translation services HK\$	Inter-segment elimination HK\$	Consolidated HK\$
Revenue from external customers	<u>30,585,582</u>	<u>7,189,358</u>	<u>2,591,917</u>	<u>248,030</u>	<u>–</u>	<u>40,614,887</u>
Segment result	<u>4,098,575</u>	<u>7,998,696</u>	<u>2,488,321</u>	<u>92,000</u>	<u>–</u>	<u>14,677,592</u>
Unallocated operating income and expenses						<u>(6,039,075)</u>
Profit from operations						8,638,517
Net finance income						122,379
Taxation						<u>–</u>
Profit attributable to shareholders						<u>8,760,896</u>
Depreciation and amortisation for the year	2,176,319	–	–	–		
Significant non-cash expenses (other than depreciation and amortisation)	<u>429,985</u>	<u>–</u>	<u>–</u>	<u>–</u>		
Segment assets	<u>26,087,883</u>	<u>60,292</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>26,148,175</u>
Unallocated assets						<u>21,655,725</u>
Total assets						<u>47,803,900</u>
Segment liabilities	<u>2,175,224</u>	<u>79,232</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,254,456</u>
Unallocated liabilities						<u>13,928,337</u>
Total liabilities						<u>16,182,793</u>
Capital expenditure incurred during the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>		

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### *Overall Review*

During the year ended 31st December, 2003, the Group successfully implemented its strategic business restructuring, evolving from a software products provider into a customer-oriented information localisation services provider. However, during the restructuring period, the economy of the PRC and the Greater China Region was battered by the outbreak of Severe Acute Respiratory Syndrome (“SARS”). Difficulties were further compounded by the fact that information localisation business was in the initial stage of its development. Affected by these factors, the Group recorded a turnover of approximately HK\$35.5 million, representing a drop of 13% for the year ended 31st December 2003. Nevertheless, profit from operations increased from approximately HK\$8.6 million to approximately HK\$8.9 million. As a result of the increase in finance costs, profit attributable to shareholders showed a slight decrease from HK\$8.8 million, recorded in fiscal year 2002, to approximately HK\$8.1 million in fiscal year 2003. Driven by the Group’s business restructuring, and the higher margins in the information localisation business, the gross profit margin increased from 63% to 66% during the year, proving that the strategic deployment of the Group’s business development is a great success.

#### *Segment Results*

With the Group’s strategic business transformation during the year and forging ahead in the information localisation business, the turnover of the translation services increased to approximately HK\$4.6 million, an increase of 18 times from that of year 2002.

However, during this business transformation period, due to the outbreak of SARS, the sales performance of the general software and licensing fee decreased from approximately HK\$30.6 million and HK\$7.2 million to approximately HK\$22.1 million and HK\$5.9 million respectively for the year ended 31st December, 2003, representing decreases by 28% and 17% respectively.

#### *Financial Resources and Liquidity*

The Group continued to improve financial resources and liquidity over the past twelve months. As at 31st December, 2003, the Group had bank balances and cash of approximately HK\$17.2 million (2002: approximately HK\$1.8 million).

As at 31st December, 2003, the outstanding bank loan of the Group amounted to approximately HK\$8.5 million (2002: HK\$8.5 million), bearing interest of 5.84% (2002: 5.84%) per annum and the bank loan had been fully repaid in March 2004. As at 31st December, 2003, the total asset value of the Group was approximately HK\$74.7 million (2002: approximately HK\$47.8 million) whereas the total liabilities was approximately HK\$21.2 million (2002: approximately HK\$16.2 million). The gearing ratio of the Group, calculated as total asset value divided by total amount of liabilities, was 28% (2002: 34%).

### *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.

### *Charge on Group Assets*

As at 31st December, 2003 and 2002, the Group did not have any charge on its assets.

### *Acquisition and Disposal of Subsidiaries*

On 22nd March, 2004, the Group entered into an articles of association with 廈門實達巨龍信息技術有限公司 (Xiamen Start Dragon Information Technology Company Limited), a subsidiary of a substantial shareholder of the Company for the establishment of a new subsidiary, 福建多語翻譯服務有限公司 (Fujian Multi Language Translation Service Company Limited) ("Fujian MLTS") whose principal activity is the provision of translation services, consultancy and related business, development of computer software and design of websites. The Group will hold a 75% equity interest in Fujian MLTS and is required to contribute proportionately RMB3.75 million in the registered capital of Fujian MLTS. Details of Fujian MLTS are set out in the Company's announcement dated 22nd March, 2004.

### *Significant Investments*

As at 31st December, 2003 and 2002, the Group did not have any significant investments held.

### *Contingent Liabilities*

The Group had no material contingent liabilities as at 31st December, 2003 and 2002.

### **Dividend**

The Board does not recommend the payment of a final dividend for the year ended 31st December, 2003.

### **Business Review**

With regard to the general software business, to support the information localisation business and cater for the needs of our customers, the Company reallocated resources during the year and concentrated on the development and upgrade of the functions and quality of our translation software, including our computer-aided translation software (Yaxin CAT and Yaxin CATS), instant and automatic translation software (Oriental Express) and dictionary translation software (Oriental EasyDict). At the same time, other software products, such as our information security software, Internet applications software and entertainment software, also performed steadily. Turnover in the general software sector reached HK\$22.1 million, accounting for approximately 62% of total turnover. To reduce sale and promotional costs of this general software business, the Group had gradually altered sales strategies through agent's distribution. In the licensing fee sector, hardware products faced furious competition. Developers were therefore minimizing costs and attaching less software to their computers. The Group accordingly reduced investment in this business sector.

The PRC's economy is growing rapidly, catching the attention of foreign investors around the world. Moreover, as more international enterprises are entering into the PRC, the demand for translation services is increasing. In addition, the PRC's pillar industries, such as the automobile, energy, information technology and mass media industries are developing at a rapid pace. These factors are further fueling the need for quality translation services. To tap this significant market demand, SJTU Sunway successfully developed translation and information localisation business through the self-developed translation platform "Lingoworld", which has extended the Group's revenue streams. The Group will further develop this business sector, turning it into a growth driver for the Group.

Driven by the full operation of Lingoworld, the information localisation business performed well during the year, with turnover totalling HK\$4.6 million. Lingoworld possesses 140 customers, most of which are coming from the electricity, automobile, information technology and architecture sectors. These corporate customers include Changchun FAW, Lenovo and The People's Bank of China. A number of professional translation houses, including the Compilation and Translation Bureau of the Central Committee, Translation Association of the Central Committee and Beijing Oriental Sun Translation Company, are also customers of the Group.

The Group's leading research and development capabilities and unique functions are vital to the success of Lingoworld. Lingoworld embraces state-of-art technologies which include the GMS and Yaxin CATS multi-translation management system. The Group also finalised a distributed function translation ("DFT") management system. This particular system allows a single translation project to be conducted in different locations, in coordination with each other through the full use of DFT. This technology has upgraded the efficiency and quality of the Group's translation business. The Lingoworld platform provides cross-regional, multi-lingual and most important of all, interactive translation services to professional translation houses, corporate and personal users. Lingoworld's translation database covers 74 professional industries, with approximately 7 million lexical terms and, currently, Lingoworld's processing speed has been reaching up to 1.2 million words per day. The database will be further building up automatically through the translation process. Lingoworld also has an abundant and increasing pool of over 1,800 well-chosen professional translators.

## Employee Information

### *Number of Employees*

A breakdown of the number of employees of the Group by function as at 31st December, 2003 and 2002 is set out below:

	<b>31st December, 2003</b>	31st December, 2002
Management	15	15
Research and Development	59	59
Sales and Marketing	63	92
Administration and Finance	13	14
	<hr/>	<hr/>
Total	<b>150</b>	<b>180</b>

## *Remuneration of Employees and Policies*

The Group has maintained good relations with its staff and has not experienced any disruption of its operations due to labour disputes. The Group provides fringe benefits in accordance with the relevant laws and regulations of the PRC and Hong Kong including contributions to society security scheme of the PRC and the contributions to the Mandatory Provident Fund Scheme of Hong Kong.

Total remuneration incurred for the year ended 31st December, 2003 amounted to approximately HK\$6.6 million (2002: approximately HK\$4.2 million) due to the fact that less staff costs were capitalised as intangible assets compared to 2002. The Directors received remuneration of HK\$620,457 during the year ended 31st December, 2003 (2002: HK\$293,627).

## **Prospects**

We are highly confident in the growth of the PRC's information localisation industry in the future. With the favourable market sentiment initiated by the PRC's accession to the World Trade Organisation, the 2008 Beijing Olympic Games and the 2010 Shanghai EXPO, information exchange between the PRC and the rest of the world will further increase, nurturing the huge market potential in the information localisation industry. According to the Allied Business Intelligence ("ABI") report published in the second quarter of 2001, the Asia translation market already reached RMB11 billion in 2001. By 2005, the market is expected to expand to RMB20 billion, with the PRC accounting for approximately 30% of the total market value. As the PRC translation industry is still in the early stages of development and the newly introduced information localisation service is yet to be formulated, immense business opportunities are available which greatly favours the future business expansion of the Group.

Our aim is to be the leading information localisation specialist in the PRC with "Lingoworld" targeted to be one of the best information localisation brand names through different marketing channels. The Group will continue to increase the performance of "Lingoworld", strengthen the language database and increase efficiencies in collecting and renewing vocabularies through our automated systems. We are also planning to expand our pool of translation specialists and to improve the quality, efficiency and management of translation services. We will continue to improve our software quality to stay competitive in the translation software industry. Last but not least, the Group is aggressively seeking potential strategic alliances to achieve synergies in both product R&D and quality of service.

To capture the opportunities ahead and to achieve future growth, the Group will continue to promote the "Lingoworld" brand name through a series of marketing promotion activities. The Group will further promote the unique functions of the Lingoworld platform to office software and system companies for integrating Lingoworld into their software and hardware systems so as to expand our client base. On 22nd March, 2004, the Group, through our wholly owned subsidiary 交大銘泰(北京)軟件有限公司 ("SJTU Sunway (Beijing)"), entered into an articles of association for the establishment of a new company, Fujian MLTS. SJTU Sunway (Beijing) will hold a 75% equity interest in Fujian MLTS. The Group believes that the establishment of Fujian MLTS can increase the market coverage of translation software and services in the PRC.

As an information localisation provider with an international outlook, we will continue to make use of our experience and market advantages in the PRC for future business expansion overseas. Starting in Hong Kong and North America, we will place a strong business focus on our established translation services. For instance, we will be allocating much of our resources in the financial market, taking full advantage of its highly repetitive translation formats. These services will in turn demonstrate the competitiveness of our “Lingoworld” translation service platform.

We will also place an equal emphasis on improving our sales and distribution strategy. We are confident that the turnover of our internet-based sales and services will increase in the near future.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

As the Company was first listed on the GEM on 9th January, 2004, there is no comparison for the business objectives for the review periods stated in the prospectus issued by the Company dated 30th December, 2003 and the actual business progress in respect of the year ended 31st December, 2003.

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

As at 9th January, 2004 (being the date on which shares of the Company first commenced trading on GEM), none of the Directors had any interest and short position in the shares of the Company (“Shares”) or underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules to be notified to the Company and the Stock Exchange in each case once the Shares are listed on GEM.

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

### A. Substantial Shareholders

So far as is known to the Directors, as at 9th January, 2004 (being the date on which shares of the Company first commenced trading on GEM), the following entities will have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10 per cent. or more of the Shares:

Name	Capacity	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 (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:*

- The letter "L" denotes the entity's interests in the Shares.
- The interest in the Shares will be held through Futart, the entire issued share capital of which is 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 is owned as to approximately 30.05 per cent. by Leading Value Industrial Limited which is 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 will be 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.

## B. Other persons who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors, as at 9th January, 2004 (being the date on which shares of the Company first commenced trading on GEM), save for the entities disclosed in sub-paragraph A above, the following entities/persons will have an interest or short position in the Shares and the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV 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 will be held through Dignet, the entire issued share capital of which is beneficially owned by Optipure, which is in turn beneficially owned by Mr. Ko.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 25th 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 9th 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 31st 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 9th January, 2004 to 31st December, 2006 and CPY Capital will receive fees for acting as the Company's continuing sponsor.

At 31st December, 2003, 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.

## **CHANGE OF QUALIFIED ACCOUNTANT AND COMPANY SECRETARY**

Ms. Cheung Sui Ping resigned as the Company Secretary and Qualified Accountant of the Company on 29th January, 2004. Ms. Wong Tik has been appointed as the Company Secretary and Qualified Accountant with effect from 29th January, 2004.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since its shares were listed on the GEM of Stock Exchange on 9th January, 2004.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company's shares were listed on the GEM of the Stock Exchange on 9th January, 2004 and , accordingly, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31st December, 2003.

## **AUDIT COMMITTEE**

The Company set up an audit committee on 25th November, 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23, 5.24 and 5.25 of 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 year ended 31st December, 2003 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.

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

Hong Kong, 26th March, 2004

*This announcement will remain on the "Latest Company Announcement" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for a minimum period of seven days from the day of its posting.*