



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)



INTERIM REPORT 2005

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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.

INTERIM RESULTS

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

Condensed consolidated income statement

	Note	Six months ended 30 June		Three months ended 30 June	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Turnover	2	1,706	8,969	870	4,052
Cost of sales		(677)	(2,881)	(332)	(1,519)
Gross profit		1,029	6,088	538	2,533
Other revenue		61	972	58	258
Selling expenses		(2,670)	(2,815)	(1,681)	(1,809)
Research and development costs		(1,255)	(1,028)	(628)	(544)
Administrative expenses		(7,929)	(5,391)	(4,874)	(2,992)
Loss from operations		(10,764)	(2,174)	(6,587)	(2,554)
Net finance costs		(411)	(247)	(104)	(121)
Share of loss of an associate		(353)	-	(44)	-
Loss from ordinary activities before taxation	3	(11,528)	(2,421)	(6,735)	(2,675)
Taxation	4	-	(111)	-	(22)
Loss from ordinary activities after taxation		(11,528)	(2,532)	(6,735)	(2,697)
Minority interests		188	66	74	66
Loss attributable to shareholders		(11,340)	(2,466)	(6,661)	(2,631)
Interim dividends	5	-	-	-	-
Loss per share Basic	6	(5.67) cents	(1.23) cents	(3.33) cents	(1.32) cents
Diluted		N/A	N/A	N/A	N/A

Condensed consolidated balance sheet

	Note	As at 30 June 2005 HK\$'000 (Unaudited)	As at 31 December 2004 HK\$'000 (Audited)
Non-current assets			
Fixed assets	7	4,116	4,426
Intangible assets		4,590	4,574
Interest in an associate		2,954	3,307
Investment fund		14,675	9,872
		<u>26,335</u>	<u>22,179</u>
Current assets			
Inventories		2,636	2,559
Trade and other receivables	8	43,613	15,676
Tax recoverable		–	111
Cash and cash equivalents		462	31,066
		<u>46,711</u>	<u>49,412</u>
Current liabilities			
Trade and other payables	9	17,924	6,143
Loan from a shareholder		2,637	2,322
Short term loans (unsecured)		13,679	14,623
		<u>34,240</u>	<u>23,088</u>
Net current assets		<u>12,471</u>	<u>26,324</u>
Total assets less current liabilities		38,806	48,503
Minority interests		(1,899)	(2,087)
NET ASSETS		36,907	46,416
CAPITAL AND RESERVES			
Share capital	10	2,000	2,000
Reserves		34,907	44,416
		<u>36,907</u>	<u>46,416</u>

Condensed consolidated cash flow statement

	Six months ended	
	30 June 2005 HK\$'000 (Unaudited)	30 June 2004 HK\$'000 (Unaudited)
Net cash inflow from operating activities	4,724	11,734
Net cash (outflow)/inflow from investing activities	(33,912)	15,896
Net cash outflow from financing activities	(1,416)	(4,025)
(Decrease)/Increase in cash and cash equivalents	(30,604)	23,605
Cash and cash equivalents at beginning of the period	31,066	17,162
Cash and cash equivalents at end of the period	462	40,767
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	462	40,767

Condensed statement of changes in equity

	Share capital HK\$'000	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	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	2,000	30,224	15,090	2,927	-	19,205	69,446
At 1 January 2005	2,000	30,224	15,090	2,927	-	(3,825)	46,416
Loss for the period	-	-	-	-	-	(11,340)	(11,340)
Recognition in income statement	-	-	-	-	1,831	-	1,831
At 30 June 2005 (Unaudited)	2,000	30,224	15,090	2,927	1,831	(15,165)	36,907

Notes:

1. Basis of preparation

The Group's unaudited condensed interim financial statements have 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 Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed interim financial statements have 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 charge 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 six months ended 30 June 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 the report.

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

2. Turnover and segment information

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

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 2005

	Information Localisation		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>1,700</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>1,706</u>
Segment result	<u>(4,842)</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>(4,836)</u>
Unallocated operating income and expenses					<u>(5,928)</u>
Loss from operations					<u>(10,764)</u>
Share of losses of an associate					<u>(353)</u>
Net finance costs					<u>(411)</u>
Taxation					<u>-</u>
Minority interests					<u>188</u>
Loss attributable to shareholders					<u>(11,340)</u>

Six months ended 30 June 2004

	Information Localisation		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>	3,217
Unallocated operating income and expenses					<u>(5,391)</u>
Loss from operations					(2,174)
Net finance costs					(247)
Taxation					(111)
Minority interests					<u>66</u>
Loss attributable to shareholders					<u>(2,466)</u>

3. Loss from ordinary activities before taxation

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

	Six months ended 30 June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Amortisation of intangible assets	<u>1,330</u>	1,028
Depreciation	<u>400</u>	298
Interest on bank advances and other borrowings repayable within five years	<u>411</u>	<u>172</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 2005 and the period ended 30 June 2004.

5. Dividends

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

6. Loss per share*(a) Basic loss per share*

The calculation of basic loss per share for the six months and three months ended 30 June 2005 were based on the net loss of HK\$11,340,000 and HK\$6,661,000 respectively (2004: net loss of HK\$2,466,000 and HK\$2,631,000 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 2005 (2004: 200,000,000).

(b) Diluted loss per share

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

7. Fixed assets

During the period, the Group spent approximately HK\$111,000 on additions of property, plant and equipment.

8. Trade and other receivables

	At 30 June 2005 HK\$'000 (Unaudited)	At 31 December 2004 HK\$'000 (Audited)
Accounts receivable	4,300	8,339
Loan to minority shareholders	1,396	1,396
Prepayments, deposits and other receivables	37,917	5,941
	43,613	15,676

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 2005 HK\$'000 (Unaudited)	At 31 December 2004 HK\$'000 (Audited)
Current	452	922
Aged over 1 month but less than 4 months	73	192
Aged over 4 months but less than 8 months	426	1,049
Aged over 8 months but less than 12 months	290	3,536
Aged over 1 year	3,059	2,640
	4,300	8,339

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 2005 HK\$'000 (Unaudited)	At 31 December 2004 HK\$'000 (Audited)
Accounts payable	341	412
Other payables	17,583	5,731
	17,924	6,143

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

	At 30 June 2005 HK\$'000 (Unaudited)	At 31 December 2004 HK\$'000 (Audited)
Due within 3 months or on demand	–	412
Due after 3 months but within 6 months	–	–
Due after 6 months but within 1 year	33	–
Over 1 year	308	–
	341	412

10. Share capital

	<i>HK\$'000</i>
Authorised:	
4,000,000,000 ordinary shares of HK\$0.01 each	<u>40,000</u>
Issued and fully paid:	
At 31 December 2004 and 30 June 2005	
– 200,000,000 ordinary shares of HK\$0.01 each	<u>2,000</u>

11. Commitments*Commitments under operating leases*

At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2005 HK\$'000 (Unaudited)	At 31 December 2004 HK\$'000 (Audited)
Within 1 year	1,870	2,304
After 1 year but within 5 years	3,173	3,961
	5,043	6,265

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 2005, the Group has paid rental expenses of HK\$30,000 (2004: HK\$139,000) 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 2005, an amount due to a shareholder of HK\$2,637,000 (31 December 2004: amount due to a shareholder of HK\$2,428,000) 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 2005, the Group reported a turnover of HK\$1,706,000, as compared with HK\$8,969,000 for the same period last year. Due to the Group's strategic business restructuring, the Group focused on the information localisation business during the review period. As a result, the contribution from the general software business to the Group is minimal throughout the review period. In addition, the information localisation business is at its preliminary stage. The Group's overall turnover, therefore, suffered a great impact.

The Group's overall profit margin was 60.3% for the six months ended 30 June 2005 while it was 67.9% in 2004. During the review period, the Group has focused its effort on the information localisation business rather than on the general software business because of the high operating margin of the information localisation segment.

The increased operating expenses, in particular, staff costs, professional fees and rental expenses, the recognition of share options granted during the period, have imposed great financial burden to the Group. At the same time, the overall businesses cannot boast up during the review period. As a result, the Group recorded losses attributable to shareholders of HK\$11,340,000 against of HK\$2,466,000 for the same period last year.

Financial Resources and Liquidity

As at 30 June 2005, the Group had bank balances and cash of approximately HK\$462,000 and a short term bank loan of approximately HK\$13,679,000. The loan is repayable within one year and interest bearing at prevailing market rates.

Gearing Ratio

As at 30 June 2005, the total asset value of the Group was approximately HK\$73,046,000 whereas the total liabilities was approximately HK\$34,240,000. The gearing ratio of the Group, calculated as total liabilities over total assets, was 46.9% (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

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

On 24 June 2005, the group entered into a sale and purchase agreement with an independent third party pursuant to which the Group agreed to purchase from the independent third party 100% interests in New Champion International Limited ("New Champion") which owns 45% interests in Beijing Advanced Information Storage Technology Co., Ltd ("Beijing AIS"), Beijing AIS is principally engaged in the development and sale of Jukebox in the PRC.

The management expects these acquisitions will contribute to the results of the Group in the second half year, and long term benefits to the shareholders of the Company.

Pledge of Assets and Contingent Liabilities

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

Employee Information

As at 30 June 2005, the Group employed 96 staff (2004: 189 staff). Staff costs (including directors' remuneration and HK\$1,831,000 being share based payment to employees under the share option scheme) was approximately HK\$5,303,000 for the period under review (2004: approximately HK\$5,057,000). 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

During the period under review, the Group has strengthened its focus in the development and identified opportunities for strengthening the information localisation business including automobile, energy, machinery and construction, and to achieve effective use of resources. It also created synergic effects for the Group's information localisation business and increased its competitive edges.

During the period under review, the quality, efficiency and stability of "Lingoworld" received further market recognition, establishing its competitive advantage in the arena of information localisation. Given the increasing demand for information localisation services by the automobile and machinery industries, the Group made stronger promotion within these sectors during the period and secured cooperation agreements with renowned local and foreign enterprises and corporations, including *上汽集團, *北汽福田, *用友軟件, *哈飛汽車, *中石油 and IBM for the provision of high quality and standard information localisation services. As such, the brand of "Lingoworld" was further recognized. Furthermore, the Group also made good progress in the expansion into the finance and information technology markets, and successfully entered into long term cooperation agreements with clients.

* for identification purposes only

With regard to bilingual businesses, *四川新聞網 completed its initial technical testing and trial runs and believed that application would be extended until after October 2005. In order to concentrate more on the development of the information localisation business, the Group will modify its multi-lingual websites gradually, transforming them into information localisation services oriented platforms rather than multi-lingual. As such, resources will be used more effectively for the exploration of the huge market potentials of information localisation.

In March 2005, the Group entered into agreements for the acquisition of 100% equity interests in each of Mighty Wish and the Translation Company. Both Mighty Wish and the Translation Company have extensive operation history and solid business foundations in respect of the information localisation business. As for New Champion, a company being acquired in June, its expertise and technology in Jukebox (光盤庫) provided essential support for the Group's enormous data processing system, enabling the Group to further consolidate the status of its information localisation business in various industries.

The Group also aggressively planned for overseas expansion and stepped up the establishment in Singapore as its base of overseas development so as to secure contracts with overseas clients and enhance the development of our information localisation business for better profits.

Prospects

In view of the increasing demand for the information localisation business, from the third quarter of 2005 onwards, the Group will put strong emphasis on developing its businesses in three major sectors with huge potentials, namely the automobile, information technology and finance. The increasing trend of market globalisation of the international enterprises and corporations that gives rise to numerous import and export activities of products and technologies and information exchange, provides the Group with a huge potential customer base and lots of opportunities, and facilitates further development of the Group. It is expected that the results contributed from the automobile and information technology sectors for this year will show significant growth.

New strategic acquisition projects bring about synergic benefits to the Group, especially in terms of the better use of resources and the advancement of technologies. Through the acquisition of Mighty Wish and Ruijin, the coverage of the information localisation services provided by the Group will be further expanded. The acquisition of New Champion also effectively enhances the competitive strengths of the Group, which enables the Group's exploration into the huge potential market of information localisation.

After business reorganization, the business foundation of the Group will be further strengthened and its services will be more comprehensive. The Group is confident of becoming one of the leading experts in information localisation business in the Greater China region. We look forward to achieving satisfactory results for our shareholders.

* for identification purposes only

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 2005 is set out below:

	Business objectives up to 30 June 2005 as stated in the Prospectus	Actual business progress up to 30 June 2005
I Enhancement of existing products & services and development of new products & services		
(1) <i>Translation software (information localisation)</i>		
• Oriental Express	Continue to enhance the quality of translation and software functions for ordinary and industry users	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.
• Yaxin CAT, Yaxin CATS and Yaxin SCAT	To launch CAE (Computer aided education) study system, and establish a complete CAT-CAR-CAE production line	Completed the development of CAE study system for Yaxin CAT and is now successfully applying in "Lingoworld" and industrial client such as *山東濰柴.
• Lingoworld	To establish another five translation centres, each with translation volume of 200,000 words per day, launch real-time translation services	Successfully established financial, legal and mechanical engineering translation centres, and the establishment of the other two translation centres is underway.
• Translation services sales channel	Continue to recruit additional sales agencies in the PRC and conduct feasibility on establishing sales points in Japan	Recruited sales agencies in Shanghai and Fuzhou and the feasibility study on establishing sales hotline in Japan is underway.

* for identification purposes only

**Business objectives up to
30 June 2005 as stated
in the Prospectus**

**Actual business progress
up to 30 June 2005**

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

*(2) Information Security
Software*

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> • Oriental Guard for PC | <p>To launch "Oriental Guard 4.5"</p> | <p>Developments on hold due to the changes in general operating environment. See note below for more details.</p> |
| <ul style="list-style-type: none"> • Oriental Guard for enterprise version | <p>To launch "Oriental Guard 4.5" targeting large sized enterprises, "Linux version 4.0" and information security software for mobile phones</p> | <p>Developments on hold due to the changes in general operating environment. See note below for more details.</p> |
| <ul style="list-style-type: none"> • Information solutions and services | <p>To provide data security solution and anti-virus services for large sized enterprises</p> | <p>Developments on hold due to the changes in general operating environment. See note below for more details.</p> |

(3) General software

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Multimedia tools | <p>To launch interactive entertainment solution for broadcasting over the internet</p> | <p>Developments on hold 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 extend digital entertainment platform with I-software from PC to mobile phone and other mobile devices, extending coverage of sales and services</p> | <p>Developments on hold due to the changes in general operating environment. See note below for more details.</p> |

	Business objectives up to 30 June 2005 as stated in the Prospectus	Actual business progress up to 30 June 2005
II Increase market coverage		
<ul style="list-style-type: none"> Increase market coverage in the PRC 	Continue to establish sales office or liaison office in developing cities e.g. Shenzhen, Fuzhou, Changsha	Plan to expand business to other areas, and business has already been rolled out in Chongqing and Xi'an.
<ul style="list-style-type: none"> Increase market coverage in overseas market 	To consolidate the Group's worldwide marketing and sales channels	The Group continues to explore the possibility of becoming the service partner of overseas translation agencies, which can capture the Chinese language related business with higher profit margin.
III Promote the Company's brand name		
<ul style="list-style-type: none"> Marketing and promotion activities 	Further strengthen the Group's image by actively taking part in social and charitable activities	Further strengthen the Group's status and image by actively taking part in industry events and organise customers' seminars.
IV Potential acquisition and strategic alliances	-	During the period under review, the Group has entered into two acquisition agreements to acquire a company which is principally engaged in the translation business and a company which is principally engaged in the sale and development of Jukebox.

Note: As the whole software market comes to a standstill and the receivable period for software business is longer than other businesses, the Group has decided to curb all further development projects for general software and information security software and turned its focus to expand its translation business.

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 2005, 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 2005 (HK\$'000)	Actual use of proceeds from the LPD to 30 June 2005 (HK\$'000)
Improvement in research and development of existing and new products	3,400	3,400
Increase market coverage in the PRC and overseas	3,500	2,400
Promotion of the Group's brand name	5,000	4,500
Potential acquisition and strategic alliances	4,000	4,000
	<hr/>	<hr/>
Total	15,900	14,300

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 all the amount has been utilised by the end of the review period.

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

As at 30 June 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 (Note 1)
He En Pei	Beneficial interest	1,770,000 ordinary shares (L) (Note 2)
He Zhan Tao	Beneficial interest	250,000 ordinary shares (L) (Note 2)

Notes:

1. The letter "L" represents the interests in the Shares and underlying shares of the Company.
2. These shares represent the respective number of Shares which would be allotted and issued upon exercise in full of the options granted to each of He En Pei and He Zhan Tao under the share option scheme of the Company.

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

Substantial Shareholders

As at 30 June 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 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	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	24,528,484 (L) (note 4)	12.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group")	Interest of a controlled corporation (note 3)	24,528,484 (L) (note 4)	12.26%
Shanghai Jiao Tong University	Interest of a controlled corporation (note 3)	24,528,484 (L) (note 4)	12.26%
Hongkong Sunway Technology Development Limited ("HK Sunway")	Beneficial owner	20,157,757 (L)	10.08%

Notes:

1. The letter "L" denotes the entity's interests in the Shares.
2. The interests in the Shares is held through Futart, the entire issued share capital of which was beneficially owned by Fintronics, a company whose shares are listed on the Main Board of the Stock Exchange. Fintronics was owned as to approximately 25.05 per cent by Leading Value Industrial Limited, the entire issued share capital of which was owned by Mr. Sze Wai, Marco, an executive Director.
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.
4. 2,000,000 Shares out of these 24,528,484 Shares are the Shares which would be allotted and issued upon exercise in full of the options granted to Simplex under the share option scheme of the Company.

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. 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.

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

Share Price at the Grant Date	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 option 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 June 2005 are as follows:

Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options	
			Granted during the year	Outstanding at 30.6.2005
Directors				
17.01.2005	17.1.2005 – 16.1.2015	0.45	2,020,000	2,020,000
Employees				
17.01.2005	17.1.2005 – 16.1.2015	0.45	3,480,000	3,480,000
Substantial shareholder				
17.01.2005	17.1.2005 – 16.1.2015	0.45	2,000,000	2,000,000

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 June 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 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 six months ended 30 June 2005.

AUDIT COMMITTEE

The Company has established 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 interim report for the six months ended 30 June 2005 with the Directors.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 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 complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2005, with deviations from code provision B.1.1 of the Code only in respect of the establishment of the Remuneration Committee. The Company has been looking for several candidates to be the members of Remuneration Committee but they have not been identified and appointed yet. The Board estimates that it will take two or three months to identify and confirm the most suitable candidates and will ensure that such appointments will be completed within a few months.

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

Executive directors	Sze Wai, Marco, Chu Chi Shing, He En Pei, He Zhan Tao, Chen Si Gen, Wang Hui Bo, Shang Guan Bu Yan
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 August 2005