



SHANGHAI JIAODA WITHUB
INFORMATION INDUSTRIAL COMPANY LIMITED*

上海交大慧谷信息產業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

INTERIM REPORT 2002

* *For identification purpose 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 sector 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 principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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This report, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquires, 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.

HIGHLIGHTS

- Recorded a turnover of approximately RMB21,277,000 for the six months ended 30th June, 2002, representing an approximately 64.4% decrease as compared with that of the corresponding period in 2001.
- Recorded a net profit of approximately RMB24,000 for the six months ended 30th June, 2002. Net profit for the same period in 2001 was approximately RMB1,071,000.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2002.

INTERIM RESULTS

The board of Directors (“Board”) of Shanghai Jiaoda Withub Information Industrial Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended to 30th June, 2002.

For the three months ended 30th June 2002, the unaudited turnover is approximately RMB12,612,000, representing a decrease of approximately RMB13,357,000, or approximately 51.4% in turnover as compared with that of the same period in 2001. For the six months ended 30 June 2002, the unaudited turnover is approximately RMB21,277,000, representing a decrease of approximately RMB38,511,000, or approximately 64.4% in turnover as compared with that of the same period in 2001.

For the three months ended 30th June 2002, the unaudited net profit is approximately RMB2,670,000, representing a growth of approximately 1,863% as compared with that of the same period in 2001. For the six months ended 30th June 2002, the unaudited net profit is approximately RMB24,000.

The unaudited results of the Group for the three months and six months ended 30th June, 2002 together with the unaudited comparative figures for the corresponding periods in 2001 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

| | <i>Notes</i> | For the three months ended | | For the six months ended | |
|---|--------------|---------------------------------------|----------------|-------------------------------------|----------------|
| | | 2002 | 2001 | 2002 | 2001 |
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 2 | 12,612 | 25,969 | 21,277 | 59,788 |
| Cost of sales | | (5,184) | (20,891) | (12,183) | (49,822) |
| Gross profit | | 7,428 | 5,078 | 9,094 | 9,966 |
| Other revenue | | 1,000 | 821 | 1,159 | 2,682 |
| Distribution costs | | (584) | (654) | (1,271) | (1,288) |
| Research and development costs | | (1,984) | (399) | (2,165) | (753) |
| Administrative expenses | | (1,908) | (3,738) | (5,124) | (7,459) |
| Profit from operations | 3 | 3,952 | 1,108 | 1,693 | 3,148 |
| Finance costs | 4 | (62) | (729) | (118) | (1,383) |
| Share of losses from associates | | (792) | (212) | (1,292) | (478) |
| Profit before taxation | | 3,098 | 167 | 283 | 1,287 |
| Taxation | 5 | (282) | (355) | (282) | (582) |
| Net profit/(loss) before minority interests | | 2,816 | (188) | 1 | 705 |
| Minority interests | | (146) | 324 | 23 | 366 |
| Net profit attributable to shareholders | | 2,670 | 136 | 24 | 1,071 |
| Dividends | | – | – | – | – |
| Earnings per share (in RMB) | 6 | 0.0074 | 0.0005 | 0.0001 | 0.0036 |

CONDENSED CONSOLIDATED BALANCE SHEETS

| | | 30 June 2002 | 31 December 2001 |
|---|--------------|-------------------------------|-----------------------------|
| | <i>Notes</i> | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Audited) |
| Non-current assets | | | |
| Plant and equipment | | 2,397 | 2,524 |
| Goodwill | | 149 | 172 |
| Intangible asset | | 4,800 | 4,950 |
| Interests in associates | | 6,758 | 8,112 |
| Other non-current assets | | 1,150 | 1,150 |
| | | <u>15,254</u> | <u>16,908</u> |
| Current assets | | | |
| Inventories | | 7,433 | 5,949 |
| Trade debtors | 7 | 8,339 | 6,050 |
| Deposits, prepayments and other debtors | | 7,366 | 6,361 |
| Other investments | | 1,500 | 1,962 |
| Amounts due from related parties | | – | 2,144 |
| Amounts due from associates | | – | 242 |
| Cash and bank balances | | 17,144 | 17,821 |
| | | <u>41,782</u> | <u>40,529</u> |
| Current liabilities | | | |
| Short-term bank loans | | 3,000 | 4,000 |
| Trade creditors | 8 | 2,676 | 3,464 |
| Other creditors and accrued expenses | | 10,806 | 10,666 |
| Amounts due to associates | | 963 | – |
| Income tax payable | | 1,385 | 1,102 |
| | | <u>18,830</u> | <u>19,232</u> |
| Net current assets | | <u>22,952</u> | <u>21,297</u> |
| Total assets less liabilities | | 38,206 | 38,205 |
| Minority interests | | <u>(65)</u> | <u>(88)</u> |
| Net assets | | <u>38,141</u> | <u>38,117</u> |
| Shareholders' funds | | | |
| Share capital | | 36,000 | 36,000 |
| Reserves | | 2,141 | 2,117 |
| | | <u>38,141</u> | <u>38,117</u> |

CONDENSED CONSOLIDATED CASHFLOW STATEMENTS (UNAUDITED)

| | For the six months ended 30th June | |
|---|---|----------------|
| | 2002 | 2001 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash (outflow)/inflow from operating activities | (175) | 19,639 |
| Returns on investments and servicing of finance | | |
| Dividends paid | – | (537) |
| Dividends received | – | 61 |
| Dividends received from associates | 60 | 180 |
| Interest received | 30 | 56 |
| Interest paid | (117) | (1,383) |
| Net cash outflow from returns on investments and servicing of finance | (27) | (1,623) |
| Tax paid | – | (319) |
| Investing activities | | |
| Payments to acquire plant and equipment | (164) | (246) |
| Payments to acquire other investments | (2,230) | (3,545) |
| Proceeds from sale of other investments | 2,919 | 3,999 |
| Net cash inflow from investing activities | 525 | 208 |
| Net cash inflow before financing | 323 | 17,905 |
| Financing | | |
| New loans raised | – | 2,000 |
| Repayment of loans | (1,000) | – |
| Net cash (outflow)/inflow from financing activities | (1,000) | 2,000 |
| Net (decrease)/increase in cash and cash equivalents | (677) | 19,905 |
| Cash and cash equivalents as at 1st January | 17,821 | 12,061 |
| Cash and cash equivalents as at 30th June | <u>17,144</u> | <u>31,966</u> |

CONDENSED CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY (UNAUDITED)

| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Retained profit/ accumulated loss) RMB'000 | Total RMB'000 |
|---------------------------|-----------------------------|-----------------------------|-------------------------------|--|------------------|
| At 1 January 2001 | 30,000 | – | 8,896 | (11,719) | 27,177 |
| Net profit for the period | – | – | – | 1,071 | 1,071 |
| At 30 June 2001 | <u>30,000</u> | <u>–</u> | <u>8,896</u> | <u>(10,648)</u> | <u>28,248</u> |
| At 1 January 2002 | 36,000 | 2,300 | 8,896 | (9,079) | 38,117 |
| Net profit for the period | – | – | – | 24 | 24 |
| At 30 June 2002 | <u>36,000</u> | <u>2,300</u> | <u>8,896</u> | <u>(9,055)</u> | <u>38,141</u> |

Notes:

1. BASIS OF PRESENTATION

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 4th May 1998 and its H shares were listed on the GEM (the "Listing") on 31st July, 2002, the details are set out in the prospectus of the Company dated 25th July, 2002 (the "Prospectus"), issued in respect of the Company's H shares listed on GEM.

The number of shares adopted in this report is assuming that the sub-division of shares as described in Appendix IV of the Prospectus had been taken place during the period from 1st January, 2001 to 30th June, 2002.

The unaudited condensed consolidated interim financial statements (Interim financial statements) have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice No. 25 (Interim Financial Reporting) issued by the Hong Kong Society of Accountants and the Rules Governing the Listing of Securities on GEM. The accounting policies and calculation methods used in the preparation of these interim financial statements are consistent with those used in the "Accountants' Report" as set out in the Prospectus.

2. TURNOVER

Turnover represents revenue from business solutions development, application software, network and data security products, and the sales of distributed products. Turnover is stated net of value added tax and other sales tax and returns. Revenue from provision of business solutions development, application software and network and data security products are recognised when delivery or acceptance has occurred, the fee is fixed and determinable, evidence of an arrangement exists, collection of the receivable is probable and no significant post-delivery obligations remain. Sales of distributed products are recognised when goods are delivered and title has passed.

| | For the three months ended 30th June | | For the six months ended 30th June | |
|------------------------------------|---|-----------------|---------------------------------------|-----------------|
| | 2002 RMB'000 | 2001 RMB'000 | 2002 RMB'000 | 2001 RMB'000 |
| Business solution development | 9,122 | 4,968 | 11,546 | 14,064 |
| Application software | 2,823 | 1,479 | 2,857 | 1,608 |
| Network and data security products | 205 | 102 | 302 | 102 |
| Sales of distributed products | 462 | 19,420 | 6,572 | 44,014 |
| | <u>12,612</u> | <u>25,969</u> | <u>21,277</u> | <u>59,788</u> |

As all of the Group's activities are conducted in the PRC and are within the same business segment, segment analysis is not applicable for the Group.

3. PROFIT FROM OPERATIONS

| | For the three months ended 30th June | | For the six months ended 30th June | |
|--|---|---------|---------------------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit from operations has been arrived after charging: | | | | |
| Amortisation of goodwill | 11 | 11 | 23 | 23 |
| Amortisation of intangible asset | 75 | 75 | 150 | 150 |
| Depreciation | 124 | 226 | 291 | 418 |
| and crediting: | | | | |
| Gain on disposal of listed securities | 174 | 89 | 227 | 1,433 |

4. FINANCE COSTS

| | For the three months ended 30th June | | For the six months ended 30th June | |
|--|---|------------|---------------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest on bank loans wholly repayable within five years | 62 | 728 | 118 | 1,381 |
| Bank charges | — | 1 | — | 2 |
| | <u>62</u> | <u>729</u> | <u>118</u> | <u>1,383</u> |

5. TAXATION

| | For the three months ended 30th June | | For the six months ended 30th June | |
|---------------------------|---|------------|---------------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| The charges comprises: | | | | |
| PRC enterprise income tax | <u>282</u> | <u>355</u> | <u>282</u> | <u>582</u> |

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong. The Group was subject to PRC enterprise income tax ("EIT") at rates of 15% and 33%, calculated based on PRC statutory accounts after adjusting for items comprised of non-taxable income and non-deductible expenses ("PRC tax adjusted profit").

The Company is recognised as a New and High Technology Enterprise in the PRC and subject to a favourable EIT rate of 15%. The subsidiaries of the Company are subject to EIT rate of 33%.

Share of results of associates by the Group included share of taxation of associates amounting to RMB17,100 and RMB1,800 for the three months and six months ended 30 June 2002 respectively (RMB6,500 and RMB13,000 for the three months and six months ended 30 June 2001 respectively).

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30th June, 2002 was based on the net profit of approximately RMB2,670,000 and approximately RMB24,000 (three months and six months ended 30th June, 2001: net profit of approximately RMB136,000 and RMB1,071,000) divided by the number of shares during the period as if the sub-division of the company's shares as described in Appendix IV of the Prospectus had been taken place at the beginning of the relevant periods (2002: 360,000,000 shares and 2001: 300,000,000 shares).

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2002 and 2001 as there were no potential ordinary shares in issue during the relevant periods.

7. TRADE DEBTORS

The credit terms of the Group are 30-90 days. The aging analysis of trade debtors is as follows:

| | As at 30 June 2002 | As at 31 December 2001 |
|------------------------------|-----------------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Aged: | | |
| 0-90 days | 5,156 | 5,294 |
| 91-180 days | 3,281 | 617 |
| 181-365 days | 79 | 324 |
| >365 days | 65 | 57 |
| | <hr/> | <hr/> |
| | 8,581 | 6,292 |
| Provision for doubtful debts | (242) | (242) |
| | <hr/> | <hr/> |
| | 8,339 | 6,050 |

8. TRADE CREDITORS

The aging analysis of trade creditors is as follows:

| | As at 30 June 2002 | As at 31 December 2001 |
|--------------|-----------------------------------|---------------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Aged: | | |
| 0-90 days | 2,058 | 2,733 |
| 91-180 days | 166 | 709 |
| 181-365 days | 451 | 22 |
| >365 days | 1 | - |
| | <hr/> | <hr/> |
| | 2,676 | 3,464 |

9. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period. (2001: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

For the three months ended 30th June, 2002, the Group has accomplished a revenue of approximately RMB12,612,000 and a net profit of approximately RMB2,670,000. This represented a decrease of 51.4% in total revenue as compared with that of the same period in 2001. For the six months ended 30th June, 2002, the Group has recorded a revenue of approximately RMB21,277,000 and a net profit of approximately RMB24,000. This represented a decrease of 64.4% in total revenue as compared with that of the same period in 2001. The decrease in the turnover of the Group was due to the Group's strategy that more resources would be devoted to high profit margin products and businesses. Turnover in the same period of previous year comprised significant portion of distributed products sales which accounted for 73.6% of total turnover and amounted to approximately RMB44,014,000. However, the gross profit margin of such business was only 4.8% and the overall gross profit margin was adversely affected (approximately 16.7%). For the six months ended 30th June 2002, sales of distributed products accounted for approximately 30.9% of turnover and the overall gross profit margin was around 42.7%. Though the turnover decreased significantly comparing

with that of the same period in previous year, the Group for the first half 2002 recorded a net profit approximately RMB24,000. Directors expect the Group's performance will continue to improve as more projects are going to be completed in the second half 2002.

Financial Resources and liquidity

As at 30th June, 2002, shareholders' funds of the Group amounted to approximately RMB38,141,000. Current assets amounted to approximately RMB41,782,000, of which approximately RMB17,144,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB18,830,000, mainly its trade payable, accruals and short-term bank loan. The net asset value per share was RMB0.106. The Group did not have any long-term debts.

As at 30th June, 2002, the Group held other investments amounted to approximately RMB1,500,000, representing the Group's investments in other information technology related companies ("unlisted investment"). At 31st December, 2001, the composition of other investments was: (Listed securities: RMB462,000; unlisted investment: RMB1,500,000).

The Group has outstanding bank loan of RMB3,000,000, which was borrowed by Shanghai Jiada Withub Software Company Limited ("Withub Software"), one of the Group's subsidiaries. The fund was basically used to finance the daily operations of Withub Software. The loan will be due on 18th November 2002 and the monthly interest rate charged was 0.53625%. Other than this short-term loan, the Group has not committed any borrowing facilities. As at 30th June 2002, the Group held cash balance of RMB17,144,000 (31st December, 2001: RMB17,821,000) and the current ratio was 2.2 (31st December, 2001: 2.1). The Directors believe that the Group is financial healthy.

The Group expresses its gearing ratio as a percentage of long-term debts over total assets. As at 30th June, 2002, the Group had a gearing ratio of zero since the Group did not have any long-term debts (31st December, 2001: zero). The Group generally finances its operations with equity funding and bank borrowings.

During the six months ended 30th June, 2002, as the Group's borrowings, cash, bank deposits, sales and purchases were substantially denominated in Renminbi, the Board considers that the potential foreign exchange exposure of the Group is minimal.

In accordance with the Group's treasury policy, idle cash will be placed on short-term deposits with financial institutes in the PRC and Hong Kong.

Others

As at 30th June, 2002, the Group employs approximately 165 employees, comparing with the same period in 2001, representing a decrease of 3 employees (June 2001: 168 employees). For the six months ended 30th June, 2002, the remuneration for the employees of the Group (including the directors' emoluments) amounted to approximately RMB4,624,000. (2001: RMB4,688,000). There are no significant differences between the number of employees and staff costs in the corresponding period of 2001 and 2002. All employees of the Group entitle basic salary and discretionary bonus. The sales staff also entitle selling commissions. The Group adopted a share option scheme, details of which were set out in the Appendix IV of the Prospectus.

During the six months ended 30th June, 2002, the Group had no material acquisitions and disposal of subsidiaries and affiliated companies and it is the same for the comparative six months ended 30th June, 2001.

As at 30th June 2002, the Group has no significant investment held, and it is the same as at 31st December, 2001.

As at 30th June 2002, there were no charges on group assets, and it is the same as at 31st December, 2001.

As at 30th June, 2002, the Group had no future plans for material investments except that capital assets will be purchased in accordance with the details set out in the section headed “Business objectives and future plans and prospects” in the Prospectus.

As at 30th June, 2002, the Group had no material contingent liabilities, and it is the same as at 31st December, 2001.

PRODUCT DEVELOPMENT

Application software

For the six months ended 30th June 2002, the Group completed the testing in Zhejiang province for Enterprise Information Management System and the development, testing and packaging of network version of Railway Labour Wage Information Management System. The Directors expect these products will be launched into the market in the second half of 2002.

Network and data security products

For the six months ended 30th June 2002, the Group refined the firewall and Withub-Video products continuously. The Group also commenced the development of new products such as 1,000Mbps firewall and MPEG-II products.

MARKET AND BUSINESS DEVELOPMENT

For the six months ended 30th June 2002, the Group carried out promotion activities for Enterprise Information Management System and Railway Labour Wage Information Management System. The Group established distribution channels in Shanghai and Chongqing and increased the number of distributors. The Group sold approximately 2,300units of software in the first half of 2002. The Group also advertised on newspapers and magazines to promote its products .

FUTURE PROSPECTS

Based on the recent growth and development in the economic environment of the PRC, the resulting improvement in overall living standards and business automation as well as the State’s policy of making information technology a fundamental driving force for economic growth, the Directors believe that there is an enormous growth potential in the information technology sector, in particular, business application solutions.

The Directors also believe that the Group, with the existing technology it owned, its well-qualified and experienced team of research and development staff as well as its relationship with and ongoing technological support from Shanghai Jiao Tong University, will be able to compete favourably and capitalise on the growth potential in the business application solutions market in the information technology sector in the People’s Republic of China.

As at June 2002, outstanding business solution development projects were amounted to around RMB11,000,000. The Directors believe that the business solution development business will be the driving force of the Group in 2002.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN SHARES

As at 31st July, 2002 (date of the Listing of the Company), except for those shares as set out below, none of the Directors and the supervisors of the Company (the “Supervisor”) or their associates had any personal, family, corporate or other interests in the shares of the Company or associated corporations, if any, pursuant to section 29 of the SDI Ordinance.

The beneficial interests of the Directors and Supervisors in the share capital of the Company are deemed as follows:

| Directors | Type of interests | Number of shares | Percentage of deemed beneficial interest in the Company's share capital |
|------------------|--------------------------|-------------------------|--|
| Xu Xiaoming | Personal | 7,300,000 | 1.52% |
| Cheng Min | Personal | 4,700,000 | 0.98% |
| Chen Jianbo | Personal | 24,300,000 | 5.06% |

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

During the period from 1st January, 2002 to 31st July, 2002 (date of the Listing of the Company), none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31st July, 2002, none of the Directors or the Supervisors had any rights to acquire H shares in the Company.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Share option scheme" in Appendix IV of the Prospectus. No option has been granted pursuant to such share option scheme on or before 31st July, 2002 (date of the Listing of the Company).

SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in respect of the Directors and their associates, as at 31st July, 2002 (date of the Listing of the Company), the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10 percent or more of the Company's issued share capital:

| Shareholder | Number of shares | Approximate effective interests in the Company immediately after the Listing |
|--|-------------------------------|---|
| Shanghai Jiao Tong University | 114,000,000 (<i>Note 1</i>) | 23.75% |
| Shanghai Jiaoda Nanyang Co. Ltd. | 85,500,000 | 17.81% |
| Shanghai Huixin Investment Operation Company Limited | 57,000,000 | 11.88% |
| Shanghai Technology Investment Co. | 57,000,000 | 11.88% |
| Shanghai Xin Xuhui (Group) Limited | 60,000,000 | 12.50% |
| Xuhui District Industrial Association | 60,000,000 (<i>Note 2</i>) | 12.50% |

Note:

- These 114,000,000 Domestic Shares are respectively registered and owned as to 28,500,000 Domestic Shares by Shanghai Jiaoda Industrial Investment Management (Group) Limited, the registered capital of which is owned as to 96.735% by Shanghai Jiao Tong University and as to 3.265% by Shanghai Jiaoda Enterprise Management Centre, an entity wholly-owned by Shanghai Jiao Tong University, and as to remaining 85,500,000 Domestic Shares by Shanghai Jiaoda Nanyang Company Limited, the Shares in issue of which are owned as to approximately 43.7% by Shanghai Jiao Tong University. Shanghai Jiao Tong University is deemed to be interested in the aggregate of 114,000,000 Domestic Shares held by Shanghai Jiaoda Industrial Investment (Group) Limited and Shanghai Jiaoda Nanyang Company Limited under the Securities (Disclosure of interests) Ordinance.

2. These 60,000,000 Domestic Shares are registered and owned by Shanghai Xin Xuhui (Group) Limited, the registered capital of which will be owned as to approximately 74.58% by Xuhui District Industrial Association after the completion of certain capital reorganisation as referred to in the Prospectus. Xuhui District Industrial Association is deemed to be interested in the 60,000,000 Domestic Shares held by Shanghai Xin Xuhui (Group) Limited under the Securities (Disclosure of interests) Ordinance.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st July, 2002 (date of the listing of the Company).

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Tai Fook Capital Limited ("Tai Fook Capital"), neither Tai Fook Capital nor its directors, employees or associates had any interest in the share capital of the Company as at 31st July, 2002 (date of the listing of the Company) pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 25th July, 2002 entered into between the Company and Tai Fook Capital, Tai Fook Capital has received and will receive a fee for acting as the Company's retained sponsor for the period from 31st July, 2002 to 31st December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out herein.

AUDIT COMMITTEE

The Company established an audit committee on 7th July, 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee comprises the two independent non-executive directors, Professor Shao Shihuang and Professor Gu Junzhong. The audit committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30th June, 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the period from 1st January, 2002 to 31st July, 2002 (date of the listing of the Company).

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since 31st July 2002 (the date of listing of the Company).

By Order of the Board
Xu Xiaoming
Chairman

Shanghai, the PRC, 13th August, 2002