



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 company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8205)

INTERIM REPORT 2004

* *For identification purpose only*

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

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This report, for which the directors (the “Directors”) of Shanghai Jiaoda Withub Information Industrial Company Limited (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 for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Group recorded a sales income of approximately RMB59,128,000 for the six months ended 30th June, 2004. Sales income for the corresponding period in 2003 was approximately RMB56,280,000.
- The Group recorded a net loss of approximately RMB3,112,000 for the six months ended 30th June, 2004. Net loss for the corresponding period in 2003 was approximately RMB1,866,000.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004.

INTERIM RESULTS

The board of Directors (“Board”) of Shanghai Jiada 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 ended 30th June, 2004 and for the six months ended 30th June, 2004.

The unaudited results of the Group for the three months and six months ended 30th June, 2004 together with the unaudited comparative figures for the corresponding periods in 2003 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

| | <i>Notes</i> | For the three months ended 30th June, 2004 | | For the six months ended 30th June, 2004 | |
|------------------------------------------------|--------------|---------------------------------------------------------------|----------------|-------------------------------------------------------------|----------------|
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 2 | 27,234 | 34,048 | 59,128 | 56,280 |
| Cost of sales | | (23,126) | (29,426) | (51,601) | (49,143) |
| Gross profit | | 4,108 | 4,622 | 7,527 | 7,137 |
| Other revenue | | 1,536 | 1,285 | 3,323 | 4,021 |
| Distribution costs | | (1,190) | (1,268) | (2,441) | (2,132) |
| Research and development costs | | (202) | (308) | (1,976) | (708) |
| Administrative expenses | | (4,102) | (3,836) | (9,296) | (10,154) |
| Profit/(loss) from operations | 4 | 150 | 495 | (2,863) | (1,836) |
| Finance costs | 5 | (63) | (42) | (142) | (88) |
| Share of loss of associates | | (20) | (703) | (254) | (953) |
| Profit/(loss) before taxation | | 67 | (250) | (3,259) | (2,877) |
| Taxation | 6 | – | 830 | – | 830 |
| Net profit/(loss) before minority interests | | 67 | 580 | (3,259) | (2,047) |
| Minority interests | | (26) | (82) | 147 | 181 |
| Net profit/(loss) attributable to shareholders | | 41 | 498 | (3,112) | (1,866) |
| Dividends | 11 | – | – | – | – |
| Earnings/(Loss) per share (in RMB) | 7 | 0.0001 | 0.0010 | (0.0065) | (0.0039) |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | 30th June, 2004 | 31st December, 2003 |
|-----------------------------------------|--------------|----------------------------|--------------------------------|
| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (Unaudited) | (Audited) |
| Non-current assets | | | |
| Plant and equipment | | 2,454 | 2,898 |
| Interests in associates | | 27,640 | 27,176 |
| Goodwill | | 57 | 80 |
| Intangible asset | | 4,200 | 4,350 |
| Other non-current assets | | 150 | 150 |
| Deferred tax assets | | 656 | 656 |
| | | <u>35,157</u> | <u>35,310</u> |
| Current assets | | | |
| Inventories | | 15,640 | 11,793 |
| Trade debtors | 8 | 25,506 | 29,480 |
| Deposits, prepayments and other debtors | | 5,755 | 13,018 |
| Other investments | | 1,500 | 1,500 |
| Amount due from a related party | | 40 | 390 |
| Amounts due from associates | | 1,044 | 230 |
| Cash and bank balances | | 66,846 | 75,166 |
| | | <u>116,331</u> | <u>131,577</u> |
| Current liabilities | | | |
| Bank loan | | 3,000 | 3,000 |
| Trade creditors and bills payable | 9 | 7,024 | 18,385 |
| Other creditors and accrued expenses | | 20,442 | 20,919 |
| Amount due to an associate | | 493 | 795 |
| Income taxes payable | | 1,136 | 1,136 |
| | | <u>32,095</u> | <u>44,235</u> |
| Net current assets | | <u>84,236</u> | <u>87,342</u> |
| Total assets less liabilities | | 119,393 | 122,652 |
| Minority interests | | <u>(82)</u> | <u>(229)</u> |
| Net assets | | <u>119,311</u> | <u>122,423</u> |
| Shareholders' funds | | | |
| Share capital | 10 | 48,000 | 48,000 |
| Reserves | | 71,311 | 74,423 |
| | | <u>119,311</u> | <u>122,423</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Save as stated below, the Group has not recorded any movement in reserve for the six months ended 30th June, 2004.

| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|---------------------------------|----------------------------------|------------------|
| At 1st January, 2003 | | | | | | |
| – as previously reported | 48,000 | 61,068 | 16,000 | 19 | (5,092) | 119,995 |
| – prior period adjustment arising from adoption of new accounting standard for income taxes | – | – | – | – | 618 | 618 |
| – as restated | 48,000 | 61,068 | 16,000 | 19 | (4,474) | 120,613 |
| Net loss for the period | – | – | – | – | (1,866) | (1,866) |
| At 30th June, 2003 | <u>48,000</u> | <u>61,068</u> | <u>16,000</u> | <u>19</u> | <u>(6,340)*</u> | <u>118,747</u> |
| At 1st January, 2004 | 48,000 | 61,068 | 16,000 | 223 | (2,868) | 122,423 |
| Net loss for the period | – | – | – | – | (3,112) | (3,112) |
| At 30th June, 2004 | <u>48,000</u> | <u>61,068</u> | <u>16,000</u> | <u>223</u> | <u>(5,980)*</u> | <u>119,311</u> |

* Including a non-distributable surplus of a subsidiary of RMB67,000 (2003: RMB20,000).

CONDENSED CONSOLIDATED CASHFLOW STATEMENT (UNAUDITED)

| | For the six months ended 30th June, | |
|----------------------------------------------------------|----------------------------------------|-----------------|
| | 2004 RMB'000 | 2003 RMB'000 |
| NET CASH USED IN OPERATING ACTIVITIES | (7,341) | (1,146) |
| NET CASH FROM INVESTING ACTIVITIES | 243 | 312 |
| NET CASH USED IN FINANCING ACTIVITIES | (305) | (88) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (7,403) | (922) |
| CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY | <u>60,114</u> | <u>58,779</u> |
| CASH AND CASH EQUIVALENTS AS AT 30TH JUNE | <u>52,711</u> | <u>57,857</u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| CASH AND BANK BALANCES | 66,846 | 57,857 |
| Less: Pledged time deposits | (14,135) | – |
| | <u>52,711</u> | <u>57,857</u> |

Notes:

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements (“interim financial statements”) of the Group 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 interim financial statements have been prepared on the basis of historical cost convention except for investments in securities which are measured at fair values.

The accounting policies and calculation methods used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2003.

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, | |
|------------------------------------|------------------------------------------|---------------|----------------------------------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Business solutions development | 5,651 | 13,631 | 16,196 | 20,387 |
| Application software | 522 | 226 | 692 | 530 |
| Network and data security products | 131 | 43 | 490 | 555 |
| Sales of distributed products | 20,930 | 20,148 | 41,750 | 34,808 |
| | <u>27,234</u> | <u>34,048</u> | <u>59,128</u> | <u>56,280</u> |

All of the Group's activities are conducted in the PRC. Turnover as disclosed above is net of applicable PRC business tax and value added tax.

3. SEGMENT INFORMATION

Business segments

For management reporting purpose, business segment information is chosen as the primary reporting format. The principal business segments of the Group comprise the following:

Business application solutions: develop and provide business application solutions services which include business solutions, application software, network and data security products.

Sales of distributed products: distribute computer products and accessories.

Segment information about these businesses is presented below.

| | Business application solutions | | Sales of distributed products | | Consolidated | |
|--------------------------------------------|-------------------------------------------------|----------------|-------------------------------------------------|----------------|-------------------------------------------------|----------------|
| | for the six months ended 30th June, 2004 | | for the six months ended 30th June, 2003 | | for the six months ended 30th June, 2004 | |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Segment revenue | | | | | | |
| Turnover from external customers | 17,378 | 21,472 | 41,750 | 34,808 | 59,128 | 56,280 |
| Other revenue | 120 | 340 | – | – | 120 | 340 |
| Total | 17,498 | 21,812 | 41,750 | 34,808 | 59,248 | 56,620 |
| Unallocated other revenue | | | | | 3,203 | 3,681 |
| | | | | | 62,451 | 60,301 |
| Results | | | | | | |
| Segment results | 589 | 1,735 | (74) | (270) | 515 | 1,465 |
| Unallocated operating income and expenses | | | | | (3,378) | (3,301) |
| Profit from operations | | | | | (2,863) | (1,836) |
| Finance costs | | | | | (142) | (88) |
| Share of profits less losses of associates | (254) | (953) | – | – | (254) | (953) |
| Taxation | | | | | – | 830 |
| Minority interests | | | | | 147 | 181 |
| Loss attributable to shareholders | | | | | (3,112) | (1,866) |

Geographical segment

The Group's business and assets are generated from and situated in the PRC. Accordingly, no geographical segment information has been presented.

4. PROFIT/(LOSS) FROM OPERATIONS

| | For the three months ended 30th June, | | For the six months ended 30th June, | |
|------------------------------------------------------------------------------|------------------------------------------|---------|----------------------------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit/(Loss) from operations has been arrived after charging: | | | | |
| Amortisation of goodwill | 14 | 11 | 26 | 23 |
| Amortisation of intangible asset | 75 | 75 | 150 | 150 |
| Cost of inventories recognised as an expense | 23,126 | 29,426 | 51,601 | 49,143 |
| Depreciation | 211 | 236 | 526 | 517 |
| Provision for inventory obsolescence | 377 | 600 | 377 | 600 |
| Net unrealised holding loss on other investments | – | 99 | – | 99 |
| Loss on disposal of plant and equipment | 64 | – | 75 | – |
| Operating lease in respect of rented premises | 663 | 473 | 1,325 | 926 |
| Contributions to retirement benefit scheme | 265 | 282 | 490 | 564 |
| Staff costs (including directors' emoluments and all staff related costs) | 3,088 | 3,187 | 7,323 | 7,195 |
| and crediting | | | | |
| Tuition fees | 995 | 207 | 2,805 | 2,432 |
| Gain on disposal of plant and equipment | – | – | – | 3 |

5. FINANCE COSTS

| | For the three months ended 30th June, | | For the six months ended 30th June, | |
|--------------------------------------------------------------|------------------------------------------|-----------|----------------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest on bank loans wholly repayable within five years | 63 | 42 | 142 | 88 |
| | <u>63</u> | <u>42</u> | <u>142</u> | <u>88</u> |

6. TAXATION

- (a) The amount of taxation in the consolidated income statement represents:

| | For the six months ended 30th June, | |
|--------------------------------------------|----------------------------------------|------------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Current tax | | |
| – tax for the period | – | – |
| – over-provision in respect of prior years | – | 830 |
| Total taxation for the period | <u>–</u> | <u>830</u> |

According to relevant PRC tax regulations, High and New Technology Enterprises (“HNTE”) operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax (“EIT”) rate of 15%. The Company is recognised as a HNTE and accordingly is subject to EIT at 15%. The recognition as a HNTE is subject to an annual review by the relevant government bodies. The subsidiaries of the Company are subject to applicable EIT rates ranging from 15% to 33% with the exception for Shanghai Withub Information and Professional Training School which is exempted from EIT.

No provision for EIT has been made as all companies within the Group have no estimated assessable profits.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

- (b) No deferred tax assets has recognized in respect of the tax losses as it is not possible to predict the trend of future profits to determine the amount of available tax losses to be utilized.

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share for the three months and six months ended 30th June, 2004 was based on the net profit of approximately RMB41,000 and net loss of approximately RMB(3,112,000) (three months and six months ended 30th June, 2003: net profit of approximately RMB498,000 and net loss of approximately RMB(1,866,000)) divided by the number of shares during the period (2004: 480,000,000 shares and 2003: 480,000,000 shares).

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2004 and 2003 as there were no potential dilutive shares in issue during the relevant periods.

8. TRADE DEBTORS

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

| | 30th June, 2004 | 31st December, 2003 |
|------------------------------|----------------------------|--------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Aged: | | |
| 0-90 days | 11,197 | 21,867 |
| 91-180 days | 5,884 | 1,907 |
| 181-365 days | 3,186 | 571 |
| >365 days | 5,727 | 5,623 |
| | <hr/> | <hr/> |
| | 25,994 | 29,968 |
| Provision for doubtful debts | (488) | (488) |
| | <hr/> | <hr/> |
| | 25,506 | 29,480 |
| | <hr/> | <hr/> |

9. TRADE CREDITORS AND BILLS PAYABLE

The aging analysis of trade creditors and bills payable are as follows:

| | 30th June, 2004 | 31st December, 2003 |
|--------------|----------------------------|--------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Aged: | | |
| 0-90 days | 4,534 | 16,146 |
| 91-180 days | 1,348 | 305 |
| 181-365 days | 893 | 132 |
| >365 days | 249 | 1,802 |
| | <hr/> | <hr/> |
| | 7,024 | 18,385 |
| | <hr/> | <hr/> |

10. Share Capital

| | 30th June, 2004 | 31st December, 2003 |
|-------------------------------------------------------|----------------------------|--------------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Registered, issued and fully paid: | | |
| 480,000,000 (2003: 480,000,000) shares of RMB0.1 each | 48,000 | 48,000 |
| | <hr/> | <hr/> |

The Company has conditionally adopted a share option scheme which enables the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The directors may, at their discretion but on the basis of their contribution to the development and growth of the Group, make an offer to certain persons to subscribe for the Company's H shares.

During the period, no option was granted by the Company.

11. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review for the Period

For the six months ended 30th June, 2004, the Group recorded an unaudited turnover of approximately RMB59,128,000, representing an increase of approximately RMB2,848,000 or 5.1% as compared to the corresponding period in 2003. For the three months ended 30th June, 2004, the Group recorded an unaudited turnover of approximately RMB27,234,000, representing a decrease of approximately RMB6,814,000 or 20% as compared to the corresponding period in 2003.

For the six months and three months ended 30th June, 2004, the unaudited net profit/(loss) of the Group amounted to approximately RMB(3,112,000) and RMB41,000 respectively.

During the first half of 2004, despite of the keen market competition, the Company was managed to maintain its profit margin which was similar to the preceding year. The Group recorded a growth in the sales of distributed products, and yet the high operation costs resulted in the falling of profits.

To enhance its performance, the Group intends to acquire more advanced technologies and/or to cooperate with other business partners for capturing other more profitable information technology-related business opportunities. Meanwhile, the Group has conducted reviews on its development projects and ceased the development of certain projects in accordance with the market conditions and the customer's needs. The Group has also critically considered its development direction and has formulated a new products development direction with an emphasis on video decoding product for digital broadcasting, in order to accommodate the needs of the growing market.

Financial Resources and Liquidity

As at 30th June, 2004, shareholders' funds of the Group amounted to approximately RMB119,311,000 (as at 31st December, 2003: RMB122,423,000). Current assets amounted to approximately RMB116,331,000 (as at 31st December, 2003: RMB131,577,000), of which approximately RMB66,846,000 (as at 31st December, 2003: RMB75,166,000) were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB32,095,000 (as at 31st December, 2003: RMB44,235,000) mainly comprising trade payable, accruals and short-term bank loan. The asset value per share of the Group was RMB0.249 (as at 31st December, 2003: RMB0.255).

The Group has outstanding bank loan of RMB3,000,000, which was borrowed by Shanghai Jiaoda 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 27th November, 2004 and the monthly interest rate charged was 0.48675%. Other than this short-term loan, the Group has not committed any borrowing facilities. As at 30th June 2004, the Group held cash balance of RMB66,846,000 and the current ratio was 3.6. 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. The Group had a gearing ratio of zero since the Group did not have any long-term debts. The Group generally finances its operations with equity funding and bank borrowings.

During the six months ended 30th June, 2004, as the Group's sales and purchases were substantially denominated in Renminbi, the Board considers that the potential foreign exchange exposure of the Company is minimal.

Others

As at 30th June, 2004, the Group employed permanent staff of approximately 257 (as at 30th June, 2003: 263). For the six months ended 30th June, 2004, the remuneration for the employees (including the directors' emoluments) amounted to approximately RMB7,323,000 (as at 30th June, 2003: RMB7,195,000). Employees are remunerated in accordance to their performance and working experience.

During the six months ended 30th June, 2004, the Group had no material acquisitions and disposal of subsidiaries and associated companies and it is the same for the comparative six months ended 30th June, 2003.

As at 30th June, 2004, the debt ratio (being liabilities to total assets) of the Group was approximately 21.2% (as at 31st December, 2003: 26.6%).

As at 30th June 2004, the Group had no significant investment held. As at 30th June, 2003, the Group held the investment in government bonds of approximately RMB20,805,000.

As at 30th June, 2004, the Group had a total bank deposit of approximately RMB14,135,000 used as the charge of a bill acceptance provided by the banks. As at 30th June, 2003, the Group had no pledge of assets.

As at 30th June, 2004, the Group had no future plans for material investments.

As at 30th June, 2004, the Group had no material contingent liabilities, and it is the same as at 30th June, 2003.

FUTURE PROSPECTS

The economic growth and development in the PRC in recent years has brought about the overall improvement of living standard and the enhancement of business automation, coupled with the state policy of positioning information technology as the fundamental driving force of economic growth, the Directors of the Company believe that there are enormous business opportunities in information technology industry, particularly business application solutions.

The Directors also believe that the Group, with its existing technology, well-qualified and experienced research and development team, as well as its relationship with and ongoing technological support from Shanghai Jiao Tong University, has unparallel competitive edges in the business application solutions market of the information technology industry and is set to gain substantially. With the availability of capital, the Group could allocate more resources in business development and marketing to boost the Group's results.

As the national broadband is upgraded and digital TV becomes more popular in the PRC, the Directors is of the opinion that there are tremendous business opportunities in relevant video decoding products. As a result, the Group will study the market development earnestly and commit more resources in the product design and development.

Comparison of Business Objectives with Actual Business Progress for the six months ended 30th June, 2004

| | Objectives | Actual Progress |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| RESEARCH AND PRODUCT DEVELOPMENT/ ENHANCEMENT | | |
| Software Products | Complete development of software structure for Enterprise Resource Planning software | Development ceased |
| Firewall | Continue development of new generation hacking monitor technology | Development ceased |
| | Continue development of new generation system security technology based on network processor (firewall, VPN) | Development ceased |
| | Continue development of firewall products with anti-virus capability | Development ceased |
| Witnet-Video products | Commence development of low cost MPEG-IV video products | Due to various MPEG-IV standards being marketed, we decided to postpone the development of the products. |
| | Complete development of low cost Netplayer decoding products | Development ceased |
| | Commence development of NetVCR systems utilising MPEG-IV storage | Development ceased |
| Electromagnetic interference device | Commence development of integrated electromagnetic interference device (resolve screening, power and network wiring leakages) | Development ceased |
| PRODUCTION | | |
| Witnet-Video products | Commence production of MPEG-IV video products | Production not commenced yet as development ceased |
| Electromagnetic Interference device | Complete assembly of 50 new generation electromagnetic interference device per month | Adjusted according to market demand, with a monthly average production of 82 units |

| | Objectives | Actual Progress |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Marketing campaigns & promotions | Continue advertising and exhibition campaign | Announced press release to the domestic media and arranged interviews with appointed media |
| | Continue promotion for 1,000Mbps firewall products | Promotion not commenced yet due to the marketing plan changed |
| | Continue promotion for Witnet-Video products | Promotion not commenced yet due to the marketing plan changed |
| | Continue marketing campaign for Witnet-Video products' application into distant education and medical practice | Promotion not commenced yet due to the marketing plan changed |
| | Continue promotion for computer hardware and related products distributed by the Company | Conducted promotional activities at some points of sales |
| Training | Organise and conduct inhouse training to sales and marketing staff | Organized several inhouse trainings and strengthened the product and new technology knowledge of the sales and marketing staff |
| | Organise and conduct external sales training | Arranged Company's officers to participate in training offered by suppliers |

Use of Proceeds

| | Expected total fund for the period <i>HK\$ million</i> | Actual fund utilised for the period <i>HK\$ million</i> |
|--------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------|
| Research and development | 2.0 | 1.8 |
| Production enhancement and upgrading | 0.5 | 0.1 |
| Production facilities | 1.5 | 0 |
| Sales and marketing | 4.8 | 2.0 |
| Loan repayment | 0 | 0 |
| Working capital | 0 | 0 |
| Total | <u>8.8</u> | <u>3.9</u> |

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2004, the interests and short positions of the Directors, the supervisors of the Company (the "Supervisors") (as if the requirements applicable to the Directors under the Securities and Futures Ordinance ("SFO") had applied to the Supervisors) or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

| Name | The Company/name of associated corporation | Capacity | Number and class of securities (Note 1) | Approximate percentage in the issued share capital of the Company/ associated corporation |
|------------------------|---------------------------------------------------------------------|------------------|--------------------------------------------|-------------------------------------------------------------------------------------------|
| Director | | | | |
| Xu Xiaoming | The Company | Beneficial owner | 7,300,000 domestic shares (L) | 1.52% |
| Cheng Min | The Company | Beneficial owner | 4,700,000 domestic shares (L) | 0.98% |
| Chen Jianbo | The Company | Beneficial owner | 24,300,000 domestic shares (L) | 5.06% |
| | Shanghai Jiaoda Withub Ton Yong Technology Company Limited (Note 2) | Beneficial owner | 500,000 shares (L) | 5.00% |
| Chief Executive | | | | |
| Wang Yiming | The Company | Beneficial owner | 9,840,000 domestic shares (L) | 2.05% |
| | Shanghai Huikang Information Technology Company Limited (Note 3) | Beneficial owner | 100,000 shares (L) | 10.00% |

Notes:

1. The letter "L" represents the interests in the share and underlying shares of the Company or its associated corporations.
2. Shanghai Jiaoda Withub Ton Yong Technology Company Limited is a subsidiary of Shanghai Jiaoda Withub Technology Company Limited, an associated company of the Company.
3. Shanghai Huikang Information Technology Company Limited is one of the subsidiaries of the Company.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE H SHARES

As at 30th June, 2004, none of the Directors, supervisors and chief executives of the Company was granted options to subscribe for H shares of the Company. As at 30th June, 2004, none of the Directors, supervisors and chief executives of the Company had any rights to acquire H shares in the Company.

SHARE OPTION SCHEME

The Company conditionally adopted the share option scheme on 7th July, 2002. A summary of the principle terms and conditions of the share option scheme is set out in the section headed “Share option scheme” in Appendix IV of the prospectus of the Company dated 25 July, 2002. No option has been granted pursuant to such share option scheme on or before 30th June, 2004.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES IN THE COMPANY

A. Substantial shareholders

As at 30th June, 2004, the following shareholders had an interest or a short position in the Shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO and were directly or indirectly interested in 10 per cent. or more of the Shares:

| Name of shareholder | Capacity | Number and class of shares (Note 1) | Approximate percentage of interest |
|------------------------------------------------------|-----------------------------------------------|----------------------------------------|------------------------------------|
| Shanghai Jiao Tong University | Interest of a controlled corporation (Note 2) | 114,000,000 domestic shares (L) | 23.75% |
| Shanghai Jiaoda Nanyang Co. Ltd. | Beneficial owner | 85,500,000 domestic shares (L) | 17.81% |
| Shanghai Xin Xuhui (Group) Limited | Beneficial owner | 60,000,000 domestic shares (L) | 12.50% |
| Xuhui District Industrial Association | Interest of a controlled corporation (Note 3) | 60,000,000 domestic shares (L) | 12.50% |
| Shanghai Huixin Investment Operation Company Limited | Beneficial owner | 57,000,000 domestic shares (L) | 11.88% |
| Shanghai Technology Investment Co. | Beneficial owner | 57,000,000 domestic shares (L) | 11.88% |

Notes:

1. The letter “L” represents the entity’s interest in the shares of the Company.
2. 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 Management (Group) Limited and Shanghai Jiaoda Nanyang Company Limited under the SFO.
3. 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 SFO.

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

As at 30th June, 2004, save for the persons/entities disclosed in sub-section A above, the following person/entity had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of shareholder | Capacity | Number and class of shares <i>(Note 1)</i> | Approximate percentage of interest |
|------------------------------------------------------------------|------------------|------------------------------------------------------|-------------------------------------------|
| Shanghai Jiaoda Industrial Investment Management (Group) Limited | Beneficial owner | 28,500,000 domestic shares (L) | 5.94% |
| Chen Jianbo | Beneficial owner | 24,300,000 domestic shares (L) | 5.06% |

Note 1: The letter "L" represents the entity's interest in the shares of the Company.

COMPETING INTERESTS

None of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company 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, Guotai Junan Capital Limited ("Guotai Junan"), neither Guotai Junan nor its directors, employees or associates had any interest in the share capital of the Company as at 30th June, 2004 pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 20th December, 2002 entered into between the Company and Guotai Junan, Guotai Junan has received and will receive a fee for acting as the Company's retained sponsor for the period from 1st January, 2003 to 31st December, 2004.

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 Rule 5.28 to 5.30 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 results for the six months ended 30th June, 2004.

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 up to 30th June, 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the reporting period.

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

| | |
|-------------------------------------|-------------------------------------------------------------------------------|
| Executive directors | Xu Xiaoming, Cheng Min, Chen Weifeng, Chen Jianbo, Yuan Tingliang and Hua Xin |
| Independent non-executive directors | Shao Shihuang, Gu Junzhong and Hu Shao-ming, Herman |

By order of the board of directors of
Shanghai Jiaoda Withub Industrial Company Limited
Xu Xiaoming
Chairman

Shanghai, the PRC, 12th August, 2004