



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 2006

* 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.

Given the emerging nature of the companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors 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 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

- The Group recorded a turnover of approximately RMB49,701,000 for the six months ended 30th June, 2006. Turnover for the corresponding period in 2005 was approximately RMB52,740,000.
- The Group recorded a loss attributable to equity holders of the Company of approximately RMB5,686,000 for the six months ended 30th June, 2006. Loss attributable to equity holders of the Company for the corresponding period in 2005 was approximately RMB4,556,000.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006.

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 six months ended 30th June, 2006.

For the six months ended 30th June, 2006, the unaudited turnover is approximately RMB49,701,000, representing a decrease of approximately RMB3,039,000 as compared with that of the corresponding period in 2005.

For the six months ended 30th June, 2006, the unaudited loss attributable to equity holders of the Company is approximately RMB5,686,000, representing an increase of approximately 24.8% as compared with that of the corresponding period in 2005.

The unaudited results of the Group for the six months ended 30th June, 2006, together with the unaudited comparative figures for the corresponding periods in 2005 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	2	24,169	31,567	49,701	52,740
Cost of sales		(23,511)	(24,002)	(48,415)	(45,567)
Gross profit		658	7,565	1,286	7,173
Other revenue		483	1,270	1,164	1,414
Distribution expenses		(418)	(1,108)	(981)	(1,504)
Research and development expenses		(2,083)	(2,176)	(3,401)	(3,687)
Administrative expenses		(131)	(3,022)	(1,840)	(6,605)
(Loss)/profit from operations	4	(1,491)	2,529	(3,772)	(3,209)
Finance costs	5	-	-	-	(9)
Share of profits less losses of associates		(4,136)	(415)	(1,914)	(1,175)
Loss before taxation		(5,627)	2,114	(5,686)	(4,393)
Tax expenses	6	-	(273)	-	(273)
Loss for the year		(5,627)	1,841	(5,686)	(4,666)
Attributable to:					
- Equity holders of the Company		(5,670)	1,076	(5,686)	(4,556)
- Minority interests		43	765	-	(110)
		(5,627)	1,841	(5,686)	(4,666)
Dividends		-	-	-	-
Loss per share (in RMB)	7				
- Basic		(0.0117)	0.0022	(0.0118)	(0.0095)
- Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2006	31st December, 2005
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
			<i>(note 2)</i>
NON-CURRENT ASSETS			
Plant and equipment		1,883	2,258
Interests in associates		38,885	41,025
Available for sale investments		2,210	1,916
Goodwill		–	–
Intangible asset		3,625	3,750
Other non-current assets		136	–
Deferred tax assets		484	484
		<u>47,223</u>	<u>49,433</u>
CURRENT ASSETS			
Inventories		11,980	9,462
Amount due from related parties	<i>11</i>	1,600	1,479
Amount due from associates	<i>11</i>	1,483	1,025
Trade debtors	<i>8</i>	8,384	21,230
Deposits, prepayments and other debtors		37,424	34,141
Cash and bank balances		35,932	43,311
		<u>96,803</u>	<u>110,648</u>
CURRENT LIABILITIES			
Trade creditors	<i>9</i>	15,152	11,911
Other creditors and accrued expenses		22,430	34,745
Amount due to related parties	<i>11</i>	122	–
Amount due to associates	<i>11</i>	126	832
Income taxes payable		632	1,224
		<u>38,462</u>	<u>48,712</u>
NET CURRENT ASSETS		<u>58,341</u>	<u>61,936</u>
TOTAL NET ASSETS		<u>105,564</u>	<u>111,369</u>
Share capital	<i>10</i>	48,000	48,000
Reserves		57,564	63,369
Equity attributable to shareholders		105,564	111,369
Minority interests		–	–
		<u>105,564</u>	<u>111,369</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Share premium	Capital reserve	Statutory reserves	Foreign exchange reserve	Retained profits/ (accumulated losses)	Subtotal for shareholder	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2005									
– as previously reported	48,000	61,068	16,000	223	(49)	(3,936)	121,306	110	121,416
Net loss for the period	–	–	–	–	–	(4,556)	(4,556)	–	(4,556)
At 30th June, 2005	48,000	61,068	16,000	223	(49)	(8,492)	116,750	110	116,860
At 1st January, 2006	48,000	61,068	16,000	223	(295)	(13,627)	111,369	–	111,369
Net loss for the period	–	–	–	–	–	(5,687)	(5,687)	–	(5,687)
Translation of financial statement of overseas subsidiary	–	–	–	–	(118)	–	(118)	–	(118)
At 30th June, 2006	48,000	61,068	16,000	223	(413)	(19,314)	105,564	–	105,564

CONDENSED CONSOLIDATED CASHFLOW STATEMENT (UNAUDITED)

	For the six months ended 30th June,	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH USED FROM/(IN) OPERATING ACTIVITIES	(7,119)	3,528
NET CASH USED FROM/(IN) INVESTING ACTIVITIES	(260)	(18,504)
NET CASH USED IN FINANCING ACTIVITIES	-	(9)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,379)	(14,985)
CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY	43,311	45,658
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AS AT 30TH JUNE	35,932	30,673
	<hr/>	<hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	35,932	30,673
	<hr/>	<hr/>
	35,932	30,673
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Notes:

1. BASIS OF PRESENTATION

The Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated results have been prepared on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the six months ended 30th June, 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005. The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

2. TURNOVER

Turnover represents revenue from business solutions development, application software, network and data security products, and the sale of distributed products. Turnover is stated net of 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,	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Business solution development	8,503	15,605	14,072	16,203
Application software	1,988	30	3,345	30
Network and data security products	–	335	–	609
Sales of distributed products	13,678	15,597	32,284	35,898
	24,169	31,567	49,701	52,740

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 for the six months ended 30th June, 2006		Sales of distributed products for the six months ended 30th June, 2006		Consolidated for the six months ended 30th June, 2006	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue						
Turnover from external customers	<u>17,417</u>	16,842	<u>32,284</u>	35,898	<u>49,701</u>	52,740
Unallocated other revenue					<u>1,164</u>	1,414
					<u>50,865</u>	<u>54,154</u>
Results						
Segment results	<u>(1,785)</u>	(413)	<u>(1,624)</u>	455	<u>(3,409)</u>	42
Unallocated operating income and expenses					<u>(363)</u>	(3,251)
Profit from operations					<u>(3,772)</u>	(3,209)
Finance costs					-	(9)
Share of profits less losses of associates	<u>(1,831)</u>	(1,175)	<u>-</u>	-	<u>(1,831)</u>	(1,175)
Taxation					<u>(83)</u>	(273)
Minority interests					<u>-</u>	110
Loss attributable to shareholders					<u>(5,686)</u>	<u>(4,556)</u>

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. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived after charging:

	For the three months ended 30th June,		For the six months ended 30th June,	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Staff costs (including directors' emoluments) comprises:				
Wages and salaries	1,589	3,441	3,260	7,130
Contributions to retirement benefit scheme	609	255	928	565
	2,198	3,696	4,188	7,695
Auditors' remuneration	340	–	340	–
Cost of inventories recognised as an expense	23,511	24,002	48,415	45,567
Loss on disposal of plant and equipment	–	2	–	2
Impairment losses of debtors	–	–	–	–
Write back of impairment losses of debtors	–	–	–	–

5. FINANCE COSTS

	For the three months ended 30th June,		For the six months ended 30th June,	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Interest on borrowings wholly repayable within five years	–	–	–	9
	–	–	–	9

6. TAX EXPENSES

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

	For the six months ended 30th June,	
	2006	2005
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
– tax for the period	83	–
– over-provision in respect of prior years		
Deferred tax-current period	–	273
Total taxation for the period	<u>83</u>	<u>273</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 Hong Kong Profits Tax has been made as the Group’s income neither arises in nor is derived from Hong Kong.

- (b) There has no significant unprovided deferred taxation for the six months ended 30th June, 2006 (six months ended 30th June, 2005: 273,000).

7. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 30th June, 2006 is based on the unaudited net loss of approximately RMB5,686,000 (2005: net loss of approximately RMB4,556,000) divided by the weighted average number of shares during the period (six months ended 30th June, 2006: 480,000,000 shares; six months ended 30th June, 2005: 480,000,000 shares).

Diluted earnings per share is not presented for the six months ended 30th June, 2006 and 2005 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, 2006	31st December, 2005
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Aged:		
0-90 days	3,939	15,926
91-180 days	1,952	258
181-365 days	469	816
>365 days	2,868	4,937
	<hr/>	<hr/>
	9,228	21,937
Provision for doubtful debts	(844)	(707)
	<hr/>	<hr/>
	8,384	21,230
	<hr/>	<hr/>

9. TRADE CREDITORS

The aging analysis of trade creditors are as follows:

	30th June, 2006	31st December, 2005
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Aged:		
0-90 days	13,244	7,815
91-180 days	352	–
181-365 days	672	129
>365 days	884	3,967
	<hr/>	<hr/>
	15,152	11,911
	<hr/>	<hr/>

10. SHARE CAPITAL

	30th June, 2006	31st December, 2005
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Registered, issued and fully paid:		
480,000,000 (2005: 480,000,000) shares of RMB0.1 each	48,000	48,000
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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. CONNECTED AND RELATED PARTY TRANSACTIONS

- (i) Name and relationship of related parties

Name of related parties	Relationship
Shanghai Jiao Tong University Education (Group) Company Limited	Subsidiary of Shanghai Jiao Tong University

- (ii) Significant related party transactions during the year are:

	For the six months ended 30th June,	
	2006	2005
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Project income from related parties		
– Shanghai Ton Tron information Technology	500	–

The directors are of the opinion that the above transactions were entered into on normal commercial terms and in the ordinary course of the Group's business.

- (iii) The amounts due from/to related parties and associates are unsecured, interest free and repayable on demand.

12. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Future Prospect

The economy of China continues its robust growth and recorded a growth rate of 11% for the first half of this year. The foreign investment continues to flow in without any sign of slow down. The investment from domestic is also fueling up the situation as more and more fund is available from domestic corporates due to good profit made and accumulated during the past years.

The expectation of appreciation of yuan keeps going on due to the widening of trade with the rest of the world especially with US, EU and Japan. However, we foresee this will has less effect on the export as overall cost of manufacturing in China is still low and attractive. The Company can still take advantage of the low operating cost environment.

The financial and banking system in China also saw great improvement in the recent years especially in the standard of management and also the debt control policy. This is in line with the plan of listing of the many of the state owned banks in the Stock Exchange this year. The Government has pumped in billion of dollars to restructure the state owned banks and its banking system to clear up the balance sheet. As a result, there are more funds available for healthy company and the bank is preparing to lend more for proper company and this is good for the overall health of the economic of the country and the business sector in future. This is also good for the Company.

On the other hand, we saw the possibility of increase of interest rate as the world is entering the cycle of upward trend for the interest rate when US Federal Reserve is keeping its move to increase rate. This will add burden to the cost of operation as the borrowing cost will increase. However, the Company will benefit from the current situation as the Company has sufficient cash deposit in the bank and no debt.

The increase of oil price and commodities due to the increased demand from the emerging country like India and China has added tremendous pressure to the cost of operation and resulted in the high possibility of inflation. This will dampen the growth rate and also erode the profit margin. The Company perceived that this is a negative impact in its operation and the high operation cost can affect the profit of the Company.

On the information technology front, we saw leap and bound in the innovation of the hardware and software in the telecommunication equipment, information technology, multi media product, computer and digital consumer product. We saw the introduction of high resolution TV worldwide, the inroad of Blu Ray to replace DVD, the introduction of DMB (Digital Media Broadcasting) in hand phone and the introduction of higher processing power of Core 2 Duo from Intel. All these add excitement and business opportunity to the information technology operators and participants. The Company is analyzing the market situation and will identify good business opportunity that can add good value to the business and bring synergy to its strategic plan.

The Company is continuing monitoring the change in the market and business environment. The Company is executing its budget and business plan and made necessary adjustment in order to achieve its yearly financial target and its long term strategic goal as the premier operator in the IT solution provider.

Financial Review

For the six months ended 30th June, 2006, the turnover recorded approximately RMB49,700,000 and this represent 5.7% lower than the corresponding year. The net loss has increased 22% to approximately RMB5,600,000.

The lower sale is due to the slower sales recorded in the business solution development segment and also the distributed products. The lower sales on the business solution is due to the lesser project being completed in the first half year as compared to last year and also new project is coming in slower. The Company provides information technology solution mainly to the high court management system. For the distributed product, the lower demand from the corporate on its product especially the Sharp projector is the main reason for weakening in sales value.

However, the sales in the application software have shown a good start recorded approximately RMB3,300,000. The Company provides household security software to some of the vendors on this area.

The Company continues to monitor its sales mix. The sales in distributed product remain the main contributor to the sales of the Company which represent 65% of the total sales. However, the gross profit margin in this area is lower than the business solution and also the application software.

The gross profit margin has dropped nearly 82% to RMB1,300,000. The drop is mainly due to the reduction in the sale price in order to meet keen competition both in its distributed product and also the business solution. The cost of goods purchased has been difficult to reduce and this cause the slash down of the profit margin.

The Company intends to achieve a balance product mix structure in order to provide more sustainable sales and good gross profit margin.

On the cost and expenditure management, the Company has achieved good result and able to control its cost according to the downsizing plan. All the cost has shown the effect of downsizing and decreased. The Company managed to cut RMB4,800,000 from its administration cost alone. Other major cost such as research and development and also distribution expenses has been reduced.

The Company also intensifies the pace of the collection. The trade debtor's amount has reduced 62% to RMB8,300,000. The debtor turnover for full year is expected to be around 12 times and this is a healthy scenario.

The inventory showed some sign of increase of 26% to RMB11,900,000. The inventory turnover for the full year is expected to be 8 times and this is also reasonable and acceptable figure. However, the management is monitoring its inventory and will take proper action to maintain a good turnover in the inventory.

The Company has also cut down its debt. The overall current liability has reduced by RMB10,000,000. The reduction is focused on the other creditor and this is a prudence step that shown management effort to reduce debts and lower the gearing risk. The management is holding plenty of cash and is in the look out for good investment. The increase in interest rate will also has positive effect of the Company.

In conclusion, the Company has met some short term slow down in the sales and net loss. However, the financial health of the Company remains strong and solid. The management is working diligently to deliver the planned result in the second half according to its budget and long term strategy.

Financial Resources and Liquidity

As at 30th June, 2006, equity of the Group amounted to approximately RMB105,564,000 (as at 31st December, 2005: RMB111,369,000). Current assets amounted to approximately RMB96,803,000 (as at 31st December, 2005: RMB110,648,000), of which approximately RMB35,932,000 (as at 31st December, 2005: RMB43,311,000) were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB38,462,000 (as at 31st December, 2005: RMB48,712,000) mainly comprising trade payable, accruals and short-term bank loan. The net asset value per share of the Group was RMB0.243 (as at 31st December, 2005: RMB0.220).

As at 30th June, 2006, the Group held cash balance of RMB35,932,000 and the current ratio was 2.52. The Directors believe that the Group is financial healthy.

As at 30th June, 2006, the debt ratio (being liabilities to total assets) of the Group was approximately 26.70% (as at 31st December, 2005: 30.43%).

Capital Structure

There has been no change to the capital structure of the Company during the six months ended 30th June, 2006.

Gearing ratio

The Group expresses its gearing ratio as a percentage of long-term debts over equity. 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.

Foreign exchange expenses

During the six months ended 30th June, 2006, 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.

Employee information

As at 30th June, 2006, the Group employed permanent staff of approximately 109 (as at 30th June, 2005: 220). For the six months ended 30th June, 2006, the remuneration for the employees (including the directors' emoluments) amounted to approximately RMB3,260,000 (as at 30th June, 2005: RMB7,130,000). Employees are remunerated in accordance to their performance and working experience.

Material acquisitions/disposals

During the six months ended 30th June, 2006, 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, 2005.

Charges on Group's assets

As at 30th June, 2006, the Group had no charges on Group's assets.

Details of future plans for material investments or capital assets

As at 30th June, 2006, the Group had no future plans for material investments or capital assets.

Contingent liabilities

As at 30th June, 2006, the Group had no material contingent liabilities, and it is the same as at 30th June, 2005.

Business Operation in UGL

Union Genesis Limited ("UGL") is one of major investment of the Group made on March 2005. The business of UGL is in the area of digital set-top television boxes ("STB"). It is one of the components that used in the digital converter signal in the TV. We sold this component to the manufacturers of the final product.

For the six months ended 30th June, 2006, the sales recorded only approximately USD108,000 and a net loss of approximately USD365,000. The weakening in sales were due to the slow take up rate from the manufacturers of the final product. The gross profit is around 11% and is USD11,000. However, this is unable to absorb the total cost of the operation which is USD387,000.

UGL has accumulated USD1,100,000 loss since the beginning of operation. The softening of sales also resulted the accumulated stock nearly USD8,000,000 which made up 55% of the total asset of UGL. The aging stock is more than a year. The account receivable is USD1,600,000 and the aging is also more than a year. The management of UGL is monitoring the situation and will reduce the stock in the second half of the year.

The second biggest asset is the intangible asset and the value is USD2,700,000 and made up 19% of the total asset. The amortization amount is USD27,000 for the first half of the year.

The gearing of UGL has reached 3.7 times and UGL is keen on to reduce it in future.

The management is paying its full attention to the business of this investment. The management is managing its tight financial situation especially the cashflow of UGL. The management is constant in the monitoring and discussion with UGL in order to improve this situation especially on the sale aspect. The management is expecting the sales to be improved in the second half year when more shipment of the product is made.

UGL is a new company and is in the stage of first phase of operation which may experience typical scenario of most of the start up company which face the problem the slow take up in sale and also the burden of absorbing the full total operation cost.

The management hope the situation will be solved as UGL enters the growth phase. In order to prepare for the growing stage, UGL is currently employing 62 staff and will continue to execute its plan and monitor the implementation in order to achieve the original target.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2006, the interests and short positions of the Directors, the supervisors of the Company (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 the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Directors	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
Cheng Min	Company	Beneficial owner	4,700,000 domestic shares (L)	0.98%
Wang Yiming	Company	Beneficial owner	9,840,000 domestic shares (L)	2.05%
	Shanghai Huikang Information Technology Company Limited (Note 2)	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 Huikang Information Technology Company Limited is one of the subsidiaries of the Company.

Save as disclosed above, as at 30th June, 2006, none of the Directors, supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 30th June, 2006, 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, 2006, 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 has conditionally adopted the share option scheme. 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 25th July, 2002. No option has been granted pursuant to such share option scheme on or before 30th June, 2006.

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

A. Substantial shareholders

As at 30th June, 2006, the following shareholders (other than the Directors, the supervisors of the Company (as if the requirements applicable to the Directors under the SFO had applied to the supervisors) or chief executive of the Company) 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:

Name of shareholder	Nature of interest	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 Jiada Industrial Investment Management (Group) Limited	Interest of a controlled corporation (Note 2)	114,000,000 domestic shares (L)	23.75%
Shanghai Jiada Science and Technology Park Limited	Beneficial owner	114,000,000 domestic shares (L)	23.75%
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 Company	Beneficial owner	57,000,000 domestic shares (L)	11.88%

Notes:

1. The letter “L” represents the equity’s interest in the shares of the Company.
2. There 114,000,000 Domestic Shares are registered and owned by Shanghai Jiaoda Science and Technology Park Limited (“Jiaoda S&T Park”). The major shareholder of Jiaoda S&T Park is Shanghai Jiaoda Industrial Investment Management (Group) Limited (“Jiaoda Industrial”) which owns 55.42% of registered capital in Jiaoda S&T Park. Shareholders of Jiaoda Industrial are Shanghai Jiao Tong University (96.735%) and Shanghai Jiaoda Enterprise Management Centre (3.265%), an entity wholly-owned by Shanghai Jiao Tong University. Both Jiaoda Industrial and Shanghai Jiao Tong University are deemed to be interested in the aggregate of 114,000,000 Domestic Shares held by Jiaoda S&T Park 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, 2006, 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 of shares (Note)	Approximate percentage of entity’s interest
Chen Jianbo	Beneficial owner	24,300,000 domestic shares (L)	5.06%

Note: The letter “L” represents the entity’s interest in the shares of the Company.

Save as disclosed above, as at 30th June, 2006, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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.

PRACTICE AND PROCEDURES OF THE BOARD

Throughout the six months period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the Stock Exchange's required standard of dealings. The Company had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors.

AUDIT COMMITTEE

The Company established an audit committee on 7th July, 2002 with written terms of reference for the purpose of reviewing and supervising the Group's financial reporting and internal control procedures. The audit committee comprises the three independent non-executive directors, Professor Yang Junchang, Professor Shao Shihuang and Professor Gu Junzhong. The audit committee has reviewed the unaudited results of the Company for the six months ended 30th June, 2006.

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 six months ended to 30th June, 2006.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "CG Code") throughout the period, except that the Company has not disclosed the terms of reference of audit committee and remuneration committee by including such information on the Company's website. The Company will take appropriate actions to comply with the CG Code.

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

Executive directors	Yuan Tingliang, Cheng Min, Mo Zhenxi, Wang Yiming, Li Wei, Lu Yaohui and Qian Zhenying
Independent non-executive directors	Shao Shihuang, Gu Junzhong, Hu Shao-ming, Herman and Yang Junchang

By Order of the Board
Yuan Tingliang
Chairman

Shanghai, the PRC, 11th August, 2006