



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)**

## **THIRD QUARTERLY 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.

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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.

*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 (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 (the “GEM Listing Rules”) 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 turnover of approximately RMB75,211,000 for the nine months ended 30th September, 2006, representing a decrease of approximately 17% as compared to the corresponding period in 2005.
- For the nine months ended 30th September, 2006, the Group recorded a loss attributable to equity holders of the Company of approximately RMB10,158,000. For the same period in 2005, the Group recorded a loss attributable to equity holders of the Company of approximately RMB6,937,000.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2006.

## **THIRD QUARTERLY RESULTS**

The board of Directors (the "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 ended 30th September, 2006 and for the nine months ended 30th September, 2006.

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

#### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30th September,		For the nine months ended 30th September,	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	2	25,510	37,723	75,211	90,463
Cost of sales		(24,158)	(34,269)	(72,573)	(79,836)
Gross profit		1,352	3,454	2,638	10,627
Other revenue		48	2	1,212	1,416
Distribution expenses		(615)	(497)	(1,596)	(2,001)
Research and development expenses		(1,440)	–	(4,841)	(3,687)
Administration expenses		(1,488)	(3,801)	(3,328)	(10,406)
Loss from operations		(2,143)	(842)	(5,915)	(4,051)
Finance costs		–	(57)	–	(66)
Share of profits less losses of associates		(2,329)	(1,519)	(4,243)	(2,694)
Loss before taxation		(4,472)	(2,418)	(10,158)	(6,811)
Tax expenses	3	–	–	–	(273)
Loss for the period		(4,472)	(2,418)	(10,158)	(7,084)
Attributable to:					
Equity holders of the Company		(4,472)	(2,381)	(10,158)	(6,937)
Minority interests		–	(37)	–	(147)
		(4,472)	(2,418)	(10,158)	(7,084)
Loss per share ( <i>in RMB</i> )					
– Basic	4	(0.0093)	(0.0050)	(0.0212)	(0.0145)
– Diluted		N/A	N/A	N/A	N/A

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Foreign exchange reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Subtotal for shareholder <i>RMB'000</i>	Minority interest <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2005	48,000	61,068	16,000	223	(49)	(3,936)	121,306	110	121,416
Net loss for the period	-	-	-	-	-	(6,937)	(6,937)	(147)	(7,084)
At 30th September, 2005	<u>48,000</u>	<u>61,068</u>	<u>16,000</u>	<u>223</u>	<u>(49)</u>	<u>(10,873)</u>	<u>114,369</u>	<u>(37)</u>	<u>114,332</u>
At 1st January, 2006	48,000	61,068	16,000	223	(295)	(13,627)	111,369	-	111,369
Net loss for the period	-	-	-	-	-	(10,158)	(10,158)	-	(10,158)
Translation of financial statement of overseas subsidiary	-	-	-	-	(118)	-	(118)	-	(118)
At 30th September, 2006	<u>48,000</u>	<u>61,068</u>	<u>16,000</u>	<u>223</u>	<u>(413)</u>	<u>(23,785)</u>	<u>101,093</u>	<u>-</u>	<u>101,093</u>

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 nine months ended 30th September, 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 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 September,		For the nine months ended 30th September,	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Business solutions development	4,906	6,383	18,978	22,586
Application software	2,381	765	5,726	795
Network and data security products	–	79	–	688
Sales of distributed products	18,223	28,699	50,507	64,597
Others	–	1,797	–	1,797
	<b>25,510</b>	<b>37,723</b>	<b>75,211</b>	<b>90,463</b>

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. TAX EXPENSES

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.

There has no significant unprovided deferred taxation for the nine months ended 30th September, 2006 (nine months ended 30th September, 2005: RMB273,000).

#### **4. LOSS PER SHARE**

The calculation of the basic loss per share for the nine months ended 30th September, 2006 is based on the unaudited loss attributable to equity holders of the Company of approximately RMB10,158,000 (2005: loss attributable to equity holders of the Company of approximately RMB6,937,000) and the weighted average number of shares during the period (nine months ended 30th September, 2006: 480,000,000 shares; nine months ended 30th September, 2005: 480,000,000 shares).

The calculation of the basic loss per share for the three months ended 30th September, 2006 is based on the unaudited loss attributable to equity holders of the Company of approximately RMB4,472,000 (2005: loss attributable to equity holders of the Company of approximately RMB2,381,000) and the weighted average number of shares during the period (three months ended 30th September, 2006: 480,000,000 shares; three months ended 30th September, 2005: 480,000,000 shares).

Diluted loss per share is not presented for the three months and nine months ended 30th September, 2006 and 2005 as there were no potential ordinary shares in issue during the relevant periods.

#### **5. INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2006 (2005: Nil).

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **FINANCIAL REVIEW**

For the three months ended 30th September, 2006 (“Third Quarter”), the Group recorded a turnover of approximately RMB25,510,000 representing a decrease of 32% from the corresponding period in 2005.

The operating result for the Third Quarter reported a loss of approximately RMB2,143,000 representing an increase of 155% from the corresponding period in 2005. Increase in loss from operations was mainly attributable to the decrease of turnover and gross profit.

The financial result before tax for the Third Quarter recorded a loss before tax of approximately RMB4,472,000 and this was mostly contributed by the loss of approximately RMB2,329,000 from associated companies.

The gross margin reduced to 5.3% from the corresponding period in 2005 of 9% which was primarily due to the reduction of sales price for the distributed products in the competitive market and also the change in sales mix with the reduction of sales in higher margin products such as software development application and the increase in distributing products with lower margin.

The Company was able to exert tighter cost control within the Group and the Third Quarter results showed the effect of cost reduction plan which implemented since mid of this year. The Third Quarter operating costs reduced 61% to approximately RMB1,488,000 against the corresponding period in 2005.

The management has determined to maintain cost competitiveness in order to compete in the aggressive market environment.

The loss from associated companies of approximately RMB2,329,000 increased 53%. The management has taken steps to control the situation and will monitor the progress of these companies closely.

## **BUSINESS REVIEW AND FUTURE PROSPECTS**

The sale of distributed product remains the main revenue generator for the Company although the sale has dropped almost 32%. The core products consist of the Sharp projector accounting for almost half of the gross sale. The other products such as computer notebook, LCD screen and also computer accessories make up the rest of the sale.

The market prospect for these products remains very challenging as the cost of hardware has the downward pressure due to the aggressive pricing from the competitors. The rapid advancement in the information technology helps to shorten the product cycle and makes products become obsolete very fast.

The Company will constantly keep up with the pace of advancement in the technology and reduce the holding of stock. It will also adopt a more aggressive marketing strategy and pricing strategy in order to maintain its market share.

The second main contributor of sale is from business solution development. It contributes almost RMB4,900,000. However, the sale has dropped for 23% as compared to the last quarter.

The products of this segment mainly consist of web design, service and support, intelligent building solution such as security system, professional multi conferencing system, BA system and also amalgamated system for a company.

The business work is still mainly located in Shanghai. The customers consist of both private and public sectors. Although the sales have decreased, the business remains the principle area for the Company. The Company has put a lot of resources in this area and will continue to develop the new customer for this business.

The application software is ranking as the 3rd largest contributor. The sale has jumped 3 times to approximately RMB2,400,000. The increase in sale is due to more projects are turning up and demand of the market has increased. Some of the major projects done lately include major corporations like the Railway China, the Security Department of China and also the ruling parties like Communist Party, the Local Government in Shanghai. Other areas include the education software for distant learning, the software for the welfare unit, the Shanghai Expo and the population survey software.

The software business remains robust and strong. The outlook is bright and the Company needs to organize more resources in the application software area. It indicates that there is a strong growth in the application software area of the business. The Company will monitor this segment closely and inject more resources to capture the opportunity present.



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

As at 30th September, 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 subsidiary	Capacity	Number and class of securities (Note 1)	Approximate percentage in the issued share capital of the Company/subsidiary
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:

- The letter “L” represents the interests in the share and underlying shares of the Company or its associated corporations.
- Shanghai Huikang Information Technology Company Limited is one of the subsidiaries of the Company.

Save as disclosed above, as at 30th September, 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 September, 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 September, 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 September, 2006.

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

### A. Substantial shareholders

As at 30th September, 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 Jiaoda Industrial Investment Management (Group) Limited	Interest of a controlled corporation (Note 2)	114,000,000 domestic shares (L)	23.75%
Shanghai Jiaoda 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:

- The letter "L" represents the entity's interest in the shares of the Company.
- These 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.
- 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 Division 2 and 3 of Part XV of the SFO**

As at 30th September, 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:

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number and class of shares</b> <i>(Note)</i>	<b>Approximate percentage of interest</b>
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 September, 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 nine 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 nine months ended 30th September, 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 nine months ended to 30th September, 2006.

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

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

By Order of the Board  
**Yuan Tingliang**  
*Chairman*

Shanghai, the PRC, 8th November, 2006