



SJTU SUNWAY SOFTWARE INDUSTRY LIMITED

交大銘泰軟件實業有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8148)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

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This announcement, for which the directors (the "Directors") of SJTU Sunway Software Industry Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: – (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purposes only

INTERIM RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months and three months ended 30 June 2006, together with the comparative figures for the corresponding periods in 2005, as follows:

Condensed consolidated income statement

| | | Six months ended 30 June | | Three months ended 30 June | |
|--|------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 2006 HK\$'000 (Unaudited) | 2005 HK\$'000 (Unaudited) | 2006 HK\$'000 (Unaudited) | 2005 HK\$'000 (Unaudited) |
| | Note | | | | |
| Turnover | 2 | 374 | 1,706 | 163 | 870 |
| Cost of sales | | (343) | (677) | (87) | (332) |
| Gross profit | | 31 | 1,029 | 76 | 538 |
| Other revenue | | – | 61 | – | 58 |
| Selling expenses | | (321) | (2,670) | (82) | (1,681) |
| Research and development costs | | (627) | (1,255) | (332) | (628) |
| Administrative expenses | | (2,249) | (7,929) | (1,166) | (4,874) |
| Loss from operations | | (3,166) | (10,764) | (1,504) | (6,587) |
| Net finance costs | | (223) | (411) | – | (104) |
| Share of loss of an associate | | – | (353) | – | (44) |
| Loss from ordinary activities before taxation | 3 | (3,389) | (11,528) | (1,504) | (6,735) |
| Taxation | 4 | – | – | – | – |
| Loss for the period | | (3,389) | (11,528) | (1,504) | (6,735) |
| Attributable to: | | | | | |
| Equity holders of the parent | | (3,366) | (11,340) | (1,481) | (6,661) |
| Minority interests | | (23) | (188) | (23) | (74) |
| | | (3,389) | (11,528) | (1,504) | (6,735) |
| Interim dividends | 5 | – | – | – | – |
| Loss per share | 6 | | | | |
| Basic (cents) | | (1.68) | (5.67) | (0.74) | (3.33) |
| Diluted (cents) | | N/A | N/A | N/A | N/A |

Condensed consolidated balance sheet

| | | As at 30 June 2006 HK\$'000 (Unaudited) | As at 31 December 2005 HK\$'000 (Audited) |
|---|------|---|---|
| | Note | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 1,484 | 1,614 |
| Intangible assets | | 3,620 | 4,247 |
| Interest in an associate | | 4,849 | 4,849 |
| Goodwill | | 9,697 | 9,697 |
| | | 19,650 | 20,407 |
| Current assets | | | |
| Trade receivables | 8 | 274 | 417 |
| Prepayments, deposits and other receivables | | 1,069 | 1,125 |
| Investment funds | | 6,427 | 16,427 |
| Deposit for acquisition of subsidiaries | | 22,710 | 12,710 |
| Bank balances and cash | | 250 | 561 |
| | | 30,730 | 31,240 |
| Current liabilities | | | |
| Trade and other payables | 9 | 5,003 | 6,138 |
| Amount due to a shareholder | | 21,398 | 18,217 |
| Amounts due to directors | | 1,396 | 1,322 |
| Borrowings | | 13,644 | 13,644 |
| | | 41,442 | 39,321 |
| Net current liabilities | | (10,712) | (8,081) |
| NET ASSETS | | 8,938 | 12,326 |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 2,000 | 2,000 |
| Reserves | | 5,960 | 9,326 |
| Equity attributable to equity holders of the parent | | 7,960 | 11,326 |
| Minority interests | | 978 | 1,000 |
| | | 8,938 | 12,326 |

Condensed consolidated cash flow statement

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net cash (outflows)/inflow from operating activities | (3,270) | 4,724 |
| Net cash outflow from investing activities | – | (33,912) |
| Net cash inflow/(outflow) from financing activities | 2,959 | (1,416) |
| Decrease in cash and cash equivalents | (311) | (30,604) |
| Cash and cash equivalents at beginning of the period | 561 | 31,066 |
| Cash and cash equivalents at end of the period | 250 | 462 |
| Analysis of the balances of cash and cash equivalents | | |
| Cash at bank and in hand | 250 | 462 |

Condensed statement of changes in equity

| | Share capital HK\$'000 | Share premium HK\$'000 | Capital surplus HK\$'000 | General reserve HK\$'000 | Share options reserve HK\$'000 | Accu- mulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------|--------------------------------|--------------------------------|---|--|---------------------|
| At 1 January 2005 | 2,000 | 30,224 | 15,090 | 2,927 | – | (3,825) | 46,416 |
| Loss for the period | – | – | – | – | – | (11,340) | (11,340) |
| Share based payment recognised | – | – | – | – | 1,831 | – | 1,831 |
| At 30 June 2005 | <u>2,000</u> | <u>30,224</u> | <u>15,090</u> | <u>2,927</u> | <u>1,831</u> | <u>(15,165)</u> | <u>36,907</u> |
| At 1 January 2006 | 2,000 | 30,224 | 15,090 | 2,927 | 3,282 | (42,197) | 11,326 |
| Loss for the period | – | – | – | – | – | (3,366) | (3,366) |
| At 30 June 2006 (Unaudited) | <u>2,000</u> | <u>30,224</u> | <u>15,090</u> | <u>2,927</u> | <u>3,282</u> | <u>(45,563)</u> | <u>7,960</u> |

Notes:

1. Basis of preparation

The Group's unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules and Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed interim financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

2. Turnover and segment information

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

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group mainly operates in the PRC, no geographical segment information is presented.

The following table presents revenue and results information for the Group's business segment:

Six months ended 30 June 2006

| | Information Translation services HK\$'000 (Unaudited) | Localization Custom-made solutions HK\$'000 (Unaudited) | General software HK\$'000 (Unaudited) | Software Licensing fee HK\$'000 (Unaudited) | Consolidated HK\$'000 (Unaudited) |
|--|--|--|---|--|---|
| Revenue from external customers | <u>374</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>374</u> |
| Segment result | <u>(918)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(918)</u> |
| Unallocated operating income and expenses | | | | | <u>(2,248)</u> |
| Loss from operations | | | | | <u>(3,166)</u> |
| Share of losses of an associate | | | | | - |
| Net finance costs | | | | | <u>(223)</u> |
| Taxation | | | | | - |
| Minority interests | | | | | <u>23</u> |
| Loss attributable to shareholders | | | | | <u>(3,366)</u> |

Six months ended 30 June 2005

| | Information Translation services HK\$'000 (Unaudited) | Localization Custom-made solutions HK\$'000 (Unaudited) | General software HK\$'000 (Unaudited) | Software Licensing fee HK\$'000 (Unaudited) | Consolidated HK\$'000 (Unaudited) |
|--|--|--|---|--|---|
| Revenue from external customers | <u>1,700</u> | <u>-</u> | <u>6</u> | <u>-</u> | <u>1,706</u> |
| Segment result | <u>(4,842)</u> | <u>-</u> | <u>6</u> | <u>-</u> | <u>(4,836)</u> |
| Unallocated operating income and expenses | | | | | <u>(5,928)</u> |
| Loss from operations | | | | | <u>(10,764)</u> |
| Share of loss of an associate | | | | | <u>(353)</u> |
| Net finance costs | | | | | <u>(411)</u> |
| Taxation | | | | | - |
| Minority interests | | | | | <u>188</u> |
| Loss attributable to shareholders | | | | | <u>(11,340)</u> |

3. Loss from ordinary activities before taxation

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

| | Six months ended | |
|---|-------------------------|-------------|
| | 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Amortisation of intangible assets | 627 | 1,330 |
| Depreciation | 131 | 400 |
| Interest on bank advances and other borrowings repayable within five years | 223 | 411 |

4. Taxation

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the period ended 30 June 2006 and the period ended 30 June 2005.

5. Dividends

No dividend has been paid or declared by the Company for the period ended 30 June 2006 (2005: Nil).

6. Loss per share

(a) *Basic loss per share*

The calculation of basic loss per share for the six months and three months ended 30 June 2006 were based on the net loss attributable to equity holders of the parent of HK\$3,366,000 and HK\$1,481,000 respectively (2005: net loss attributable to equity holders of HK\$11,340,000 and HK\$6,661,000 respectively) over the weighted average number of ordinary shares in issue of 200,000,000 for the six months and three months ended 30 June 2006 (2005: 200,000,000).

(b) *Diluted loss per share*

There were no potential dilutive ordinary shares in existence during the period ended 30 June 2006 and the period ended 30 June 2005.

7. Fixed assets

During the period, the Group does not spent any on additions of property, plant and equipment.

8. Trade receivables

| | At | At |
|-----------------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Net trade receivables | 274 | 417 |

An aged analysis of the trade receivables is shown as follows:

| | At 30 June 2006 <i>HK\$'000</i> (Unaudited) | At 31 December 2005 <i>HK\$'000</i> (Audited) |
|--|---|---|
| Current | – | 12 |
| Aged over 1 month but less than 4 months | 7 | 33 |
| Aged over 4 months but less than 8 months | 216 | 65 |
| Aged over 8 months but less than 12 months | – | 307 |
| Aged over 1 year | 51 | – |
| | <u>274</u> | <u>417</u> |

Debts are due for payment at the date of billing. Credit terms granted by the Group to customers is generally between one to six months. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records.

9. Trade and other payables

| | At 30 June 2006 <i>HK\$'000</i> (Unaudited) | At 31 December 2005 <i>HK\$'000</i> (Audited) |
|------------------|---|---|
| Accounts payable | 348 | 352 |
| Other payables | 4,656 | 5,786 |
| | <u>5,004</u> | <u>6,138</u> |

An aged analysis of the trade payables is shown as follows:

| | At 30 June 2006 <i>HK\$'000</i> (Unaudited) | At 31 December 2005 <i>HK\$'000</i> (Audited) |
|--|---|---|
| Due within 3 months or on demand | – | 12 |
| Due after 3 months but within 6 months | – | – |
| Due after 6 months but within 1 year | – | – |
| Over 1 year | 348 | 340 |
| | <u>348</u> | <u>352</u> |

10. Share capital

HK\$'000

Authorized:

4,000,000,000 ordinary shares of HK\$0.01 each

40,000

Issued and fully paid:

At 31 December 2005 and 30 June 2006

– 200,000,000 ordinary shares of HK\$0.01 each

2,000

11. Commitments

Commitments under operating leases

At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 30 June 2006 HK\$'000 (Unaudited) | At 31 December 2005 HK\$'000 (Audited) |
|---------------------------------|--|--|
| Within 1 year | 1,683 | 1,853 |
| After 1 year but within 5 years | 1,518 | 2,345 |
| | <u>3,201</u> | <u>4,198</u> |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to four years, with an option to renew the lease where all terms are subject to negotiation. None of the leases includes contingent rentals.

12. Related party transactions

Non-trading transaction

During the six months ended 30 June 2006, the Group has paid rental expenses of HK\$30,000 (2005: HK\$30,000) to a shareholder of the Group. The Directors of the Company are of the opinion that the above transaction with the shareholder was conducted on normal commercial terms in the ordinary course of the Group's business.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Review

For the six months ended 30 June 2006, the Group reported a turnover of HK\$374,000, as compared with HK\$1,706,000 for the same period last year. Loss attributable to equity holders of the parent was approximately HK\$3,366,000 as compared with HK\$11,340,000 for the corresponding period in 2005.

The management has put stringent measures to reduce the operating costs and looks for potential strategic partners in forming strategic alliance to alleviate and improve the current financial and operating status of the Group.

Financial Resource and Liquidity

As at 30 June 2006, the Group had bank balances and cash of approximately HK\$250,000 and a short term bank loan of approximately HK\$13,644,000. The borrowings are repayable within one year and interest bearing at prevailing market rates.

Gearing Ratio

As at 30 June 2006, the total asset value of the Group was approximately HK\$50,380,000 whereas the total liabilities was approximately HK\$41,442,000. The gearing ratio of the Group, calculated as total liabilities over total assets, was 82.3% (31 December 2005: 76.1%). The Directors are of the view that the Group maintained a reasonable gearing ratio.

Foreign Exchange Exposure

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Renminbi, the Directors consider the Group has no material foreign exchange exposure.

Acquisition, Disposal and Significant Investment

A conditional acquisition agreement dated 16 May 2006 was entered into between the purchaser and the vendor in relation to an acquisition of hotel management and leasing of hotel rooms business by the Group. Such acquisition constitutes a very substantial acquisition in respect of the Company under the GEM Listing Rules. However, the Company was informed by the Stock Exchange that the Acquisition would not be in full compliance with Rule 19.88 of the GEM Listing Rules and the waiver of the requirements of Rule 19.88 pursuant to Rule 19.89 of the GEM Listing Rules is not granted in this case. In the event that no revised structure of the acquisition could not be agreed upon, the parties will terminate the said conditional acquisition agreement as the conditions precedent could not be fulfilled, and no party thereto shall have any obligations or liability to other parties.

Pledge of Assets and Contingent Liabilities

As at 30 June 2006, the Group did not have any substantial pledge of assets and contingent liabilities.

Employee Information

As at 30 June 2006, the Group employed 18 staff (2005: 96 staff). The staff cost (including directors' remuneration) was approximately HK\$1,122,000 for the period under review (2005: approximately HK\$5,303,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

The Group provides benefits in accordance with the relevant laws and regulations of the PRC and Hong Kong including contributions to social security scheme of the PRC and the Mandatory Provident Fund Scheme of Hong Kong. The Group also provides training to staff regularly.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 30 June 2006, an investment funds in an aggregate amount of approximately HK\$6,427,000 were held in custody by an independent third party not connected with the Directors, the chief executives, management shareholder or substantial shareholders of the Company and its subsidiaries or their respective associates.

The investment funds is unsecured and repayable on demand. The principal amount of the investment funds bears no interest. The balances of the investment funds as at 30 June 2006 represented approximately 12.7% exceeding 8% of the Group's total assets as at 30 June 2006 and represented approximately 23.3%, exceeding 8% of the Company's market capitalisation as at 30 June 2006. These balances give rise to disclosure obligations on the part of the Group pursuant to Rule 17.15 of the GEM Listing Rules.

BUSINESS REVIEW AND PROSPECTS

In view of the significant decrease in translation works handled by the Group compared with the corresponding period last year, the Group has decided to rationalize its business by focusing on providing professional translation services to more established customers. These customers usually place new orders through bidding process with great emphasis on pricing. However, we faced major difficulties in lowering cost prior to the establishment of our comprehensive core-operating platform, which undermined our business performance.

During the period under review, the Group has focused on the information localization business that offers a higher profit margin and greater market potential so as to diversify the Group's business and develop more profitable segments.

On the back of the globalization of various industries, the quicker penetration of multinational companies into markets around the world and the rapid opening of the PRC market, an enormous translation market with billions of potential revenues is in place. In addition as more and more large scale international exhibitions like the Beijing 2008 Olympic Games and Shanghai World Exhibition are coming to the PRC, its translation sector is presented with an unprecedented opportunity. We remain optimistic towards the future of our information localization business, and will capitalize on our resources and strengthen our competitive edges to prepare ourselves for the future opportunities emerged in the information localisation market.

Looking forward, the Group will focus on exploring the automobile, information technology and financial sectors, which have higher development potential.

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

As at 30 June 2006, the interests and short positions of the Directors or the chief executive of the Company in the shares of the Company ("Shares"), underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

| Name of Directors | Nature of Interest | Number and class of securities (Note 1) |
|--------------------------|---------------------------|---|
| He En Pei | Beneficial interest | 2,770,000 shares (L) (Note 2) |
| Chan Si Gen | Beneficial interest | 1,000,000 shares (L) (Note 3) |
| Shang Guan Bu Yan | Beneficial interest | 1,000,000 shares (L) (Note 3) |
| Sze Wai, Marco | Beneficial interest | 1,500,000 shares (L) (Note 3) |
| Wang Tian Ye | Beneficial interest | 200,000 shares (L) (Note 3) |

Notes:

1. The letter "L" represents the interests in the share and underlying shares of the Company.
2. These shares represent the respective number of shares which would be allotted and issued upon exercise in full of the options granted to Mr. He En Pei under the share option scheme of the Company granted on 17 January 2005 and 10 October 2005 which the exercise price is HK\$0.45 and HK\$0.14 respectively. The share options have no vesting condition and exercisable for a period of ten years.
3. These shares represent the respective number of shares which would be allotted and issued upon exercise in full of the options granted to them under the share option scheme of the Company granted on 10 October 2005 which the exercise price is HK\$0.14. These options have no vesting condition and exercisable for a period of ten years.

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

Substantial Shareholders

As at 30 June 2005, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name | Capacity | Number of Shares (Note 1) | Approximate percentage of shareholding |
|--|--|-------------------------------------|---|
| Chu Yuet Wah | Beneficial owner and interest of a controlled corporation (Note 2) | 65,975,828 (L) | 32.99% |
| Kingston Finance Limited | Beneficial owner | 64,355,828 (L) | 32.18% |
| Ma Siu Fong | Interest of a controlled corporation | 64,355,828 (L) | 32.18% |
| Futart Industry Company Limited ("Futart") | Beneficial owner | 64,355,828 (L) | 32.18% |
| FinTronics Holdings Company Limited ("FinTronics") | Interest of a controlled corporation (Note 3) | 64,355,828 (L) | 32.18% |
| Simplex Technology Investment (Hongkong) Co., Limited ("Simplex") | Beneficial owner | 22,528,484 (L) (Note 4) | 11.26% |
| Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group") | Interest of a controlled corporation (Note 4) | 22,528,484 (L) (Note 4) | 11.26% |
| Shanghai Jiao Tong University | Interest of a controlled corporation (Note 4) | 22,528,484 (L) (Note 4) | 11.26% |
| Hong Kong Sunway Technology Development Limited ("HK Sunway") | Beneficial owner | 20,157,757 (L) | 10.08% |

Notes:

1. The letter "L" denotes the entity's interests in the Shares.
2. 1,620,000 Shares are beneficially owned by Chu Yuet Wah. The interests in 64,355,828 Shares are held through Kingston Finance Limited, the entire issued capital of which is owned by Chu Yuet Wah as to 51% and Ma Siu Fong as to 49%.
3. The interests in the Shares is held through Futart, the entire issued share capital of which was beneficially owned by Fintronics, a company whose shares are listed on the Main Board of the Stock Exchange. Fintronics was owned as to approximately 25.05 per cent by Leading Value Industrial Limited which was in turn owned by Mr. Sze Wai, Marco, an executive Director.
4. The interests in the Shares were held through Simplex, the entire issued share capital of which was beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group was owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiaoda Enterprise Management Centre* (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 25 November 2003 whereby the Directors of the Company may at their discretion invite any employees, directors, suppliers, customers, advisers, consultants, joint venture partners, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any member of the Group or any invested entities, to take up options to subscribe for Shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 9 January 2004. On 17 January 2005, options entitling the holders thereof to subscribe for an aggregate of 7,500,000 shares were granted to directors, employees, technical consultants, initial management shareholders and a substantial shareholder of the Company. The fair value of options granted on 17 January 2005 is determined to be HK\$0.2442 at the grant date. On 10 October 2005, 12,800,000 share options were granted to directors, employees and consultants of the Company. The fair value of options granted on 10 October 2005 is determined to be HK\$0.1133 at the grant date.

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

| | 17 January 2005 | 10 October 2005 |
|-------------------------------|-----------------|-----------------|
| Share Price at the Grant Date | HK\$0.445 | HK\$0.140 |
| Exercise Price | HK\$0.45 | HK\$0.140 |
| Expected Volatility | 75% per annum | 75% per annum |
| Option Life | 10 years | 10 years |
| Expected Dividend Yield | 0% per annum | 0% per annum |
| Risk-free Interest Rate | 2.89% per annum | 4.13% per annum |

* For identification purposes only

In respect of the share options granted on 17 January 2005, the valuation of the fair value as at the balance sheet date was conducted by a professional valuation company, Watson Wyatt Hong Kong Limited on 4 August 2005. According to its report, the volatility rate of the share price of the Company was determined with reference to the movement of selected comparators' share prices during the period from November 1999 to July 2005. Taking into account the probability of leaving employment and early exercise behaviour stated above, the expected life of the grant of options was estimated to be 5.24 years. The risk free interest rate is taken to the linearly interpolated yield using Hong Kong Exchange Fund Notes as at 17 January 2005. It is expected that options holders will exercise when the share price is at least 325% of the exercise price.

In respect of the share options granted on 10 October 2005, the valuation of their fair value as at the balance sheet date was conducted another professional valuation company, B.I. Appraisals Limited, on 22 March 2006. According to its report, historical volatility rate of the share price of the Company was determined with reference to the 90-day historical share prices of the Company proceeding the balance sheet date. Risk-free rate of 4.127% were adopted which were the Hong Kong Interbank Offered Rates (6-months) as at the end of December 2005. Other terms and conditions of these options including but not limited to the exercise condition, number of share outstanding, strike price and conversion numbers of the options.

| Date of grant | Exercise period | Exercise price per share (HK\$) | Number of options Outstanding at 1.1.2006 and 30.6.2006 |
|----------------------|------------------------|--|--|
| Directors | | | |
| 17.01.2005 | 17.1.2005 – 16.1.2015 | 0.45 | 1,770,000 |
| 10.10.2005 | 10.10.2005 – 9.10.2015 | 0.14 | 4,700,000 |
| | | | <u>6,470,000</u> |
| Employees | | | |
| 17.01.2005 | 17.1.2005 – 16.1.2015 | 0.45 | 3,000,000 |
| 10.10.2005 | 10.10.2005 – 9.10.2015 | 0.14 | 5,600,000 |
| | | | <u>8,600,000</u> |

COMPLIANCE ADVISER'S INTEREST

Pursuant to the agreement dated 31 December 2003 entered into between the Company and Core Pacific - Yamaichi Capital Limited ("CPY Capital"), CPY Capital acts as the Company's on-going compliance adviser for a period commencing from 9 January 2004 to 31 December 2006 and CPY Capital will receive fees for acting as the Company's continuing compliance adviser.

At 30 June 2006, as notified and updated by CPY Capital pursuant to Rule 6.35 of the GEM Listing Rules, CPY Capital, its directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

COMPETING INTERESTS

None of the Directors and management and shareholders of the Company (within the meaning of the GEM Listing Rules) has an interest in any business which competes or may compete with the business in which the Company is engaged.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, quarterly report and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Wang Tian Ye, Mr. Xu Shi Hong and Mr. Wang Bin and Mr Wang Tian Ye is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the interim report for the six months ended 30 June 2006 with the Directors.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasis a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("Code on CG Practices") throughout the period ended 30 June 2006. Details of the Code adopted by the Company is set out in the section of Corporate Governance Report in the Annual Report 2005.

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

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| Executive directors | Sze Wai, Marco, He En Pei, Chen Si Gen, Shang Guan Bu Yan, Tan Shu Jiang |
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| Independent non-executive directors | Wang Tian Ye, Xu Shi Hong and Wang Bin |
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On behalf of the Board
Sze Wai, Marco
Chairman

Hong Kong, 11 August 2006