



Annual Report 2002



**Withub**

SHANGHAI JIAODA WITHUB  
INFORMATION INDUSTRIAL COMPANY LIMITED\*

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

\* 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 sectors 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 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 (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 GEM of the Stock Exchange 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

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上海交大慧谷信息產業股份有限公司(Shanghai Jiaoda Withub Information Industrial Company Limited\*) is principally engaged in the development of business application solutions in the PRC. One of its founders is Shanghai Jiao Tong University, a renowned tertiary education institution in the PRC. The Group utilises the expertise and research capability of Shanghai Jiao Tong University in the information technology sector to develop its core technologies in business application solutions.

The Group's operations encompass the development and provision of business solutions on project basis, the development and sale of application system as off-the-shelf products and sale of distributed products, such as notebook computers and computer related products.

Leveraging on its well-qualified and experienced team of research and development staff as well as its relationship with and on-going technological support from Shanghai Jiao Tong University, the Group is well positioned to become a leading business application solutions developer in the PRC.

The Company was successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 31 July 2002.

\* *For identification purposes only*

## Executive Directors

Prof. Xu Xiaoming (*Chairman*)  
Mr. Cheng Min  
Mr. Chen Weifeng  
Prof. Chen Jianbo  
Mr. Yuan Tingliang  
Mr. Hua Xin

## Independent Non-executive Directors

Prof. Shao Shihuang  
Prof. Gu Junzhong  
Mr. Hu Shao-ming, Herman, *JP*

## Supervisors

Ms. Yuan Cai Feng  
Mr. Mo Zhenxi  
Mr. Wang Qihua  
Ms. Qin Yan  
Mr. Yao Benqiang

## Company Secretary

Mr. Hui Wing Sang, Wilson *AHKSA, AAIA, ACIS, ACS*

## Audit Committee

Mr. Gu Junzhong  
Mr. Shao Shihuang

## Qualified Accountant

Mr. Hui Wing Sang, Wilson *AHKSA, AAIA, ACIS, ACS*

## Legal Address

2nd Floor  
Block 7, 471 Gui Ping Road  
Shanghai  
The PRC

## Principal Place of Business in Hong Kong

41st Floor, Jardine House  
1 Connaught Place  
Hong Kong

## Principal Place of Business in the PRC

7th Floor, Withub Technology Building  
336 Caoxi Bei Road, Shanghai  
The PRC

## Company Website

[www.withub.com.cn](http://www.withub.com.cn)

## Compliance Officer

Mr. Hua Xin

## Authorised Representatives

Mr. Chen Jianbo  
Mr. Cheng Min

## Principal Bankers

China Construction Bank  
– Shanghai Branch No. 2

Shanghai Bank  
– Jin Guo Branch

## Auditors

BDO International  
*Certified Public Accountants*  
29th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## Legal Advisers

*As to Hong Kong law*  
Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

*As to PRC law*  
AllBright Law Offices  
Gang Tai Plaza  
25th Floor  
Jin Mao Tower  
88 Century Boulevard  
Shanghai  
The PRC

## Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Sponsor

Guotai Junan Capital Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

## Stock Code

8205

*For the year ended 31 December 2002,*

- gross profit was approximately RMB24,126,000, representing an increase of approximately 19% when compared with that of last year;
- gross profit margin was approximately 27%, or 7% more than that of last year;
- net profit attributable to shareholders was approximately RMB4,006,000, representing an increase of approximately 52% when compared with that of last year; and
- the Directors do not recommend the payment of any dividends for the year ended 31 December 2002.

# CHAIRMAN'S STATEMENT

To All Shareholders,

On behalf of the board of directors (the "Board" or the "Directors") of Shanghai Jiaoda Withub Information Industrial Company Limited (the "Company", together with its subsidiaries, collectively, the "Group"), I am pleased to present the financial report of the Company for the year ended 31 December 2002.

## Results and Financial Performance

During 2002, the Group focused on higher profit margin businesses, including business solutions development business and software business. The strategy maximised the return to the shareholders. For the year ended 31 December 2002, the Group recorded a turnover of approximately RMB88,732,000, representing a 13% decrease as compared with the turnover of approximately RMB102,430,000 for the year ended 31 December 2001. Profit attributable to shareholders for the year ended 31 December 2002 was approximately RMB4,006,000, which was 52% up when compared with that of the previous year.

## Dividend

In order to reserve additional financial resources for future developments of the Group, the Board has resolved not to recommend the payment of any dividends for the year ended 31 December 2002.

## BUSINESS REVIEW

The Group recorded satisfactory results in 2002. The Business Solutions Development business recorded significant improvement comparing with that of 2001.

In 2002, the Group successfully provided business solutions services to various sectors including government agencies, education institutes and commercial organisations. The turnover of business solutions services business showed significant improvement comparing with that of 2001. The Group also attained some remarkable achievements in business solutions business. For instance, the Group continuously developed the management information systems that support the administration of trial procedures spanning across the three-tier court system in Shanghai and enhanced the original network to meet the demand of the PRC. The successful experience in 2002 laid down a solid foundation for the Group's future development in business solutions development business.

Both Application Software Business and Network and Data Security Business recorded satisfactory results in the highly competitive IT market. Although the market situation for these two businesses was difficult, especially many foreign brands competed in the marketplace, the Group was able to utilize its own competitive advantages and remained to be a key player in these markets.

The sale of distributed products dropped significantly comparing with that of 2001. This was the result of the Group's strategy to allocate resources to higher margin businesses, such as business solutions development and application software businesses. The increase in net profit in 2002 proved that this strategy did maximize return to shareholders.

However, as the Group are expected to face stiff competition in 2003, the Group may evaluate its current corporate strategies and make necessary changes in order to meet the ever changing IT market.

## BUSINESS OUTLOOK

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

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

The Directors have confidence that the Business Solutions Development business will be the revenue driver of the Group in the near future. The Group is also keen on exploring the markets in other provinces of the PRC, especially for the business solutions development business.

### ***Appreciation***

I would like to take this opportunity to express my sincere thanks to our valuable shareholders and customers, and to our committed staff for their contribution to the continual growth of the Group. I am also grateful to the management for their dedication and hard work throughout the year.

By Order of the Board

**Xu Xiaoming**

*Chairman*

Shanghai, the PRC, 25 March 2003



# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2002, shareholders' funds of the Group amounted to approximately RMB119,995,000 (2001: RMB38,117,000). Current assets amounted to approximately RMB124,661,000 (2001: RMB40,529,000), of which approximately RMB58,779,000 (2001: RMB17,821,000) were cash and bank deposits which are free from any encumbrances. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB29,937,000 (2001: RMB19,232,000), which were mainly trade payable, accruals and short-term bank loan. The Group did not have any long-term debts.

The Group expresses its gearing ratio as a percentage of long-term debts over total assets. As at 31 December 2002, 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.

## CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

On 21 November 2002 and 10 December 2002, the Company invested approximately RMB11,935,000 and RMB8,976,000 respectively in government bonds as short-term investment, details of which have been disclosed in the Company's circular dated 24 January 2003.

Save as disclosed herein, the Group had no capital commitments and significant investments during the year ended 31 December 2002.

## MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals during the year ended 31 December 2002.

## CLOSURE OF SHARE REGISTER

The register of members of the Company will be closed from 17 April 2003 to 20 May 2003 (both days inclusive). During this period no transfer of shares will be effected.

## SEGMENTAL INFORMATION

All of the Group's activities are conducted in the PRC and are within the same business segment. Accordingly, neither analysis by geographical segments nor analysis by business segments is provided.

## EMPLOYEE INFORMATION

As at 31 December 2002, the Group had 212 employees (2001: 165), comprising 43 in management, finance and administration (2001: 28), 46 in research and development (2001: 31), 73 in application development and engineering (2001: 63), 10 in production (2001: Nil), and 40 in sales and marketing (2001: 43).

Remuneration of employees for the year ended 31 December 2002 was RMB9,693,000 (2001: RMB7,838,000).

The Group has not experienced any disruption of its normal business operations due to labour disputes or significant turnover of staff. The Directors consider that the Company has maintained a very good relationship with its staff.

## EMPLOYEE INFORMATION *(Cont'd)*

The Group's remuneration and bonus policies are basically determined by the qualification, experience and performance of individual employee.

## CHARGES ON GROUP ASSETS

As at 31 December 2002, the Group did not have any charges on group assets.

## DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the section "Business objectives and future plans and prospects" of the prospectus issued by the Company on 25 July 2002 (the "Prospectus"), the Directors do not have any future plans for material investments or capital assets.

## FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2002, as the Group's sales and purchases were substantially denominated in Renminbi, the Directors consider that the potential foreign exchange exposure of the Group is minimal.

## CONTINGENT LIABILITIES

As at 31 December 2002, the Group did not have any significant contingent liabilities.

## BUSINESS REVIEW

### *Sales and Product Development*

Business solutions development

During 2002, the Group's business solutions development services focused on the PRC judicial, education, public security as well as government authorities.

The Group developed and implemented the Shanghai City Criminal Persons Management System and also established information security systems for Shanghai electronic government website and various government authorities.

Regarding education systems, the Group established solutions for educational institutes such as Zhejiang Province Yiwu Middle School and Shanghai Jiao Tong University.

## BUSINESS REVIEW *(cont'd)*

### *Sales and Product Development (cont'd)*

#### Application software

The sales of application software recorded satisfactory results in 2002. The Group completed the testing stage of its application softwares including Enterprise Information Management System and Railway Labour Wage Information Management System and they were further refined during the second half of last year. The Group started to arrange training sessions with local training institutes to promote the products. However, the development strategy of the Enterprise Information Management System was under review and therefore the completion date of version 3.0 was postponed. The launch of network version of Railway Labour Wage Information Management System was also postponed due to the revised marketing strategy.

#### Network and data security products

The Group has committed to developing network and data security systems including firewall, electromagnetic interference device and Witnet-Video products. The market of network and data security products is very competitive with the influx of foreign products and other product substitutes. To enhance its competitive edge, the Company devoted much time to product development. In this connection, development, promotion and sale of products has proceeded more slowly than expected.

#### Sale of distributed products

The Group recorded satisfactory results in its distribution business. Leveraging on our extensive experience in management and having seasoned sales and marketing personnel in our sales and marketing team, the Group managed to achieve good results despite intense market competition.

## BUSINESS OUTLOOK

### *Business solutions development*

Given the ongoing investments in terms of human and other resources, the Group expects the business solutions development business will have substantial growth in 2003. Although competition will intensify and impose pressure on profit margin, the Group believes that it will manage to maintain its competitiveness in the market given its scale, technological know-how and sales network. As for court information management system products of the Group, the Group will explore markets in other cities and provinces in the PRC in addition to Shanghai.

## **BUSINESS OUTLOOK** (cont'd)

### *Business solutions development (cont'd)*

Regarding business solutions for education institutes, the Group intends to promote the newly developed education system to educational institutions in other cities in addition to Zhejiang and Shanghai provinces. The Group believes that the development of our education solution business will take a great leap forward in 2003.

Apart from the provision of business solutions development services to the judicial, education and public security organisations, the Group also intends to develop business solutions for the logistics and securities sectors.

### *Application software*

Existing products of the Group, including the Enterprise Information Management System and Railway Labour Wage Information Management System, have been launched to the market for some time and have received feedback from the customers. Suggestions from customers have helped to improve and refine the software products of the Group. The Group will strengthen its promotion efforts in various cities and provinces in the PRC to enhance public awareness of the Group and its products.

In addition, the Group will carry on with its research and development on new products so that new products can be rolled out from time to time to meet the needs of the market. To date, two new products, namely, the personnel management information system and community management information system, have been developed. The personnel management information system functions to collect, sort, store and process data and perform statistical analysis on such data for the purpose of enterprise personnel management. In this connection, office computerisation of enterprises has provided a simplified solution. The community management information system aims to provide an information platform for use by the authorities in charge of management and the residents. With such a platform, information can be disseminated in a prompt manner to improve efficiency and provide more value-added services to residents in the community.

### *Network and data security products*

As for network and data security products, the Group will endeavour to develop this business despite the slower-than-expected progress in the development, marketing and sale of such products in 2002. The Group will evaluate the existing strategies and explore the opportunities for these products.

## BUSINESS OUTLOOK *(cont'd)*

### ***Sales of distributed products***

The sale of distributed products will remain one of the businesses of the Group, notwithstanding the limited profit contributed from this business even under an increased sales volume due to its low profit margin. To turn this business to a profit driver, the Group will seek to distribute specialized products which have a higher profit margin.

### ***Advantages for Growth***

The Group holds an optimistic view towards its development in 2003, given that funding is being absorbed and the Group is able to allocate more resources on business development and marketing. The added resources can help drive up the profit of the Group.

In 2001 and 2002, the Group was undergoing a period of full preparation in terms of marketing capability and technological accumulation, laying a solid foundation for the Group. In addition, the continual development of product range will also be a key factor to enhance the profit of the Group. Government authorities are the major customers of the Group and thus bad debts are rare. Accordingly, the financial position of the Group is relatively stable.

Information technology is developing at a fascinating speed in Shanghai with growth year after year amid the global economic downturn. With this rapid development together with our strong team, management believes that the Group will have greater development in the year ahead and be able to maximize shareholders' value.

# COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress in comparison with the business objectives set out in the Prospectus of the Company for the period from 19 July 2002 to 31 December 2002:

|                                                        | Business objectives as at<br>31 December 2002                                                                       | Actual progress of completion                                                            |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>1. Research and product development/enhancement</b> |                                                                                                                     |                                                                                          |
| <i>1.1 Software products</i>                           | Complete testing in Zhejiang province for Enterprise Information Management System                                  | Testing completed                                                                        |
|                                                        | Commence testing phase in Sichuan province for Enterprise Information Management System                             | Testing completed                                                                        |
|                                                        | Complete development, testing and packaging of v.3.0 of Enterprise Information Management System                    | The completion date of development postponed                                             |
|                                                        | Complete development, testing and packaging of network version of Railway Labour Wage Information Management System | Development, testing and packaging completed                                             |
|                                                        | Launch network version for users of single terminal version of Railway Labour Wage Information Management System    | The launch is postponed to 2003                                                          |
| <i>1.2 Firewall</i>                                    | Refine and improve firewall technology including technology based on network processor technology                   | The reliability and stability of products improved under the new system                  |
|                                                        | Continue to refine and improve 1,000Mbps firewall                                                                   | In progress                                                                              |
|                                                        | Commence establishment of network hacking techniques database                                                       | Development ceased, considering to approach other parties to purchase relevant databases |

|                                  | Business objectives as at<br>31 December 2002                                                                         | Actual progress of completion                                                                                   |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
|                                  | Identify and develop co-operation with anti-virus software manufacturer                                               | Under negotiation                                                                                               |
|                                  | Finalisation of 1,000Mbps firewall hardware application structure and preliminary design                              | Finalised processor selection and hardware structure design commenced                                           |
|                                  | Continue development of hacking monitor software for firewall                                                         | In progress                                                                                                     |
|                                  | Continue development of "VPN" software                                                                                | In progress                                                                                                     |
|                                  | Commence development on network processor application                                                                 | Continue to develop the software of network processor                                                           |
| 1.3 <i>Witnet-Video products</i> | Complete software development for MPEG-II video products                                                              | Completed the software which supports real time encoding, decoding, storage and processing MPEG-II video stream |
|                                  | Continue to refine and improve image transfer technology                                                              | In progress                                                                                                     |
|                                  | Commence development of Witnet-Video based business solutions including multimedia for schools and video conferencing | In progress                                                                                                     |
|                                  | Complete development of low cost MPEG-I visual image server                                                           | Completed                                                                                                       |
|                                  | Commence development of product series based on MPEG-II technology                                                    | Commenced the development of network digital control products based on MPEG-II Technology                       |
|                                  | Preliminary design of MPEG-IV video products                                                                          | Reached a decision on MPEG-IV video product chips and made changes to the original system                       |

|                                                | Business objectives as at<br>31 December 2002                                                                    | Actual progress of completion                                                                                                                                                                                                                         |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                | Complete design of new structure for embedded system module                                                      | Completed the new structural design of embedded system and the testing of the embedded main board of PowerPC 405 GP                                                                                                                                   |
|                                                | Complete development of NetVCR visual image storage and Netplayer visual image playback equipment with prototype | Completed development of NetVCR visual image storage and related software; development, adjustment and testing of prototype were still underway<br><br>Development of netplayer visual image playback equipment and its prototype were still underway |
| <b>2. Production</b>                           |                                                                                                                  |                                                                                                                                                                                                                                                       |
| 2.1 <i>Firewall</i>                            | Production of 100 units of 100Mbps firewall                                                                      | Production of 50 units of 100Mbps firewall completed                                                                                                                                                                                                  |
| 2.2 <i>Witnet-Video products</i>               | Production of video image servers (one-way 100 and multiway 50)                                                  | Production of video image servers (one-way 10 and multiway 50) completed                                                                                                                                                                              |
|                                                | Production of 75 NetVCR                                                                                          | In progress of development and no production commenced                                                                                                                                                                                                |
|                                                | Production of 75 Netplayer                                                                                       | In progress of development and no production commenced                                                                                                                                                                                                |
| 2.3 <i>Electromagnetic Interference device</i> | Complete assembly of 30 new generation electromagnetic interference device per month                             | Assembly of more than 200 units of new generation electromagnetic interference device per month                                                                                                                                                       |



|                                                                                                                           | Business objectives as at<br>31 December 2002                      | Actual progress of completion                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>3. Expanding geographical coverage and brand building</b>                                                              |                                                                    |                                                                                                                                                    |
| 3.1 <i>Sales &amp; marketing – geographical coverage and addition – Electromagnetic interference device</i>               | Xian, Beijing, Wuxi, Hangzhou, Haikou, Yiwu, Guangzhou and Chengdu | Coverage in Beijing, Hangzhou, Haikou, Guangzhou, Chengdu, Wubei, Guizhou and other provinces.                                                     |
| 3.2 <i>Sales &amp; marketing – geographical coverage and addition – Railway Labour Wage Information Management System</i> | Xian, Beijing, Wuxi, Hangzhou, Haikou, Yiwu, Guangzhou and Chengdu | Coverage in Xian, Beijing, Wuxi, Hangzhou, Haikou, Yiwu, Guangzhou, Chengdu, Ha'erbin, Chengzhou, Shanghai, Shenyang, Kunming and other provinces. |
| 3.3 <i>Sales &amp; marketing – geographical coverage and addition – Enterprise Information Management System</i>          | Zhejiang, Shantung and Xian                                        | Coverage in Zhejiang, Chongqing and Zhuhai                                                                                                         |
| 3.4 <i>Sales network – Firewall and Witnet Video products</i>                                                             | Shanghai, Jiangsu, Zhejiang, Shanxi and Beijing                    | Coverage in Shanghai, Jiangsu, Zhejiang, Shanxi and Beijing                                                                                        |

|     | Business objectives as at<br>31 December 2002                                                                                                                                                         | Actual progress of completion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.5 | <i>Sales network – Establishment of representative offices</i><br>Beijing, Wuxi, Hangzhou, Haikou, Yiwu, Guangzhou and Chengdu                                                                        | Establishment of representative offices in Beijing, Wuxi, Hangzhou, Haikou, Yiwu, Guangzhou and Chengdu                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 3.6 | <i>Sales agents</i><br>Continue to appoint sales agent for electromagnetic interference device<br><br>Establish after sales service centre and online sales department                                | Adopted direct sales by the Group's own sales representative in different counties, cities and provinces in the PRC instead of appointing sales agent<br><br>Established after sales service centre and online sales department                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 3.7 | <i>Marketing campaigns and promotions</i><br>Continue advertising and exhibition campaign<br><br>Continue promotion for 100Mbps firewall products<br><br>Continue promotion for Witnet-Video products | Participated in the Shanghai International Exhibition of Computers and Network Systems in Shanghai in mid-April 2002 (Products on show: video server and firewall)<br><br>Advertised under the "Q & A" section of China Labour Security Press on every Tuesdays and Thursdays to promote Group's brand<br><br>Occasionally published articles in "IT and Society Forum" in China Labour Security Press" and issued press releases in "News at a Glance" (enterprise information management platform)<br><br>Organized a number of talks in 2002, including in the Shanghai branch of China Telecom Group and in the Shanghai Bureau of Medicine Administrations<br><br>Conducted promotional activities in the judicial authorities in some PRC cities including Shanghai, Shenzhen and Wuxi |

|                                                   | Business objectives as at<br>31 December 2002                                          | Actual progress of completion                                                                                                                                               |
|---------------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                   | Continue promotion for computer hardware and related products distributed by the Group | Conducted promotional activities at some points of distribution                                                                                                             |
| 3.8 <i>Training of sales and marketing staffs</i> | Organise and conduct in-house training to sales and marketing staff                    | Organised more than 20 training activities for employees. These trainings enable our staff to better understand the features of our products and market development matters |

## USE OF NET PROCEEDS FROM THE ISSUING OF THE NEW SHARES

The Group raised net proceeds of HK\$66 million (after deduction of listing expenses) from the placing of shares and listing of the shares on GEM on 31 July 2002. From 31 July 2002 to 31 December 2002, the Group utilized approximately HK\$11.1 million in accordance with the Group's business objectives as set out in the Prospectus. An analysis of the use of proceeds as at 31 December 2002 is as follows:

|                                                                          | <b>Actual</b>       | <b>As stated in<br/>the Prospectus<br/>up to<br/>31 December<br/>2002</b> |
|--------------------------------------------------------------------------|---------------------|---------------------------------------------------------------------------|
|                                                                          | <i>HK\$ million</i> | <i>HK\$ million</i>                                                       |
| Research and development                                                 | 1.9                 | 2.1                                                                       |
| Product enhancement and upgrading                                        | 0.1                 | 0.7                                                                       |
| Production facilities                                                    | 0.6                 | 4.5                                                                       |
| Sales and marketing                                                      | 2.0                 | 5.2                                                                       |
| Loan repayment                                                           | –                   | 3.0                                                                       |
| Working capital                                                          | 6.5                 | 12.2                                                                      |
| Others (not stated in the Prospectus:<br>investment in government bonds) | 3.8                 | –                                                                         |
|                                                                          | 14.9                | 27.7                                                                      |
| <b>Total</b>                                                             | 14.9                | 27.7                                                                      |

The actual use of proceeds was lower than the estimation made in the Prospectus. Due to the fact that the progress of developing network and data security products was not up to the Group's expectation, the marketing expenses and production equipment related to this business were not spent in 2002. As the competition in network and data security product market is still intense, the Group is evaluating the strategies for these businesses.

The Group planned to apply RMB3 million raised through listing for repayment of bank loan borrowed by its subsidiary, Shanghai Jiaoda Withub Software Company Limited. However, due to the legal restriction, a holding company could not repay a loan for a subsidiary directly. The Company is now considering subscribing for further shares of Shanghai Jiaoda Withub Software Company Limited so as to provide financial resources for this subsidiary.

The Group invested an excessive cash balance of approximately RMB21 million in government bonds, of which approximately RMB17 million was internal generated fund and approximately RMB4 million was raised through listing. According to the Prospectus, excessive cash balance was planned to be placed on fixed deposits or risk-free instrument to maximize return. Details of the investment have been disclosed in the Company's circular dated 24 January 2003.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

The Company has six executive Directors, and three independent non-executive Directors. Their details are set out below:

### *Executive Directors*

Professor Xu Xiaoming (許曉鳴), aged 45, holds a Post Doctorate degree (博士後) and is the Professor and mentor for doctorate students (博士生導師). Professor Xu graduated from Shanghai Jiao Tong University and had participated in numerous state-level technologies research projects, the National High Technology Research and Development Program (project 863) and is also the project representative for the 國家自然科學基金 (State Natural Science Fund). Professor Xu was designated by the State as the first and second tier candidate for the 百千萬人才工程 (Many Talents Project), a project administered by the State to nurture future leaders in the field of science and technology in 1997. Professor Xu took up various positions in Shanghai Jiao Tong University, including the Commissioner of the Scientific Research Commission (科學處), Department Head of the Department of Automation (自動化系) and Assistant Dean of the College of Electronic Information (電子信息學院). Professor Xu is currently the Vice President of Shanghai Jiao Tong University, chairman of 交大企業管理中心 (Shanghai Jiaoda Enterprise Management Centre), director of 上海交大科技園有限公司 (Shanghai Jiaoda Science & Technology Park Limited), Shanghai JTU GoFly Technology Investment (Group) Co., Ltd., Shanghai JTU Education Development (Group) Co., Ltd., Jiaoda Onlly Company Limited, Jiaoda Nanyang Company Limited, 上海華鐘計算機軟件開發有限公司 (Shanghai Huachung Computer Software Development Company Limited), SJTU Software Investment Co., Ltd. and Simplex Computer Limited, Withub Technology Street Company Limited and 中國高科集團股份有限公司 (China Hi-tech Group Joint Stock Company Limited and independent director of 上海金陵股份有限公司 (Shanghai Jinling Joint Stock Company Limited). Professor Xu is one of the founders of the Company since its incorporation in May 1998 and is the Chairman of the Board. He is responsible for the overall business development, management and strategic planning of the Group. Professor Xu is a board representative for Jiaoda Industrial Group and Jiaoda Nanyang Company Limited.

Mr. Cheng Min (程敏), aged 52, holds a Bachelor degree and is a Senior Economist. Mr. Cheng joined the Company since its incorporation in May 1998 and is the Vice Chairman and responsible for the overall business planning of the Group. Since 1984, Mr. Cheng has acted as the 上海徐匯集體事業管理局副局長 (Deputy Director of Shanghai Xuhui Collective Business Management Office), 黨委書記 (General Manager and Party Secretary) of 上海徐匯區工業總公司 (Shanghai Xuhui District Industrial Company) and Chairman and Party Secretary of Shanghai Xin Xuhui (Group) Limited. Mr. Cheng is also the Chairman of 上海華勝電器成套有限公司 (Shanghai Hua Sheng Electrical Appliances Assembly Limited), 上海香海化妝品銷售有限公司 (Shanghai Xiang Hai Cosmetics Limited), 上海匯星電腦網絡工程有限公司 (Shanghai Hui Xing Computer Network Engineering Limited), 上海醫大綠源生物醫藥科技有限公司 (Shanghai Medical University Bio-pharmaceutical Technology Company Limited), a director of 上海交大國飛綠色能源有限公司 (Shanghai Jiaoda Go Fly Green Power Company Limited) and a director of 上海草津電機有限公司 (Shanghai Cao Jin Electrics Limited) and 上海交大科技園有限公司 (Shanghai Jiao Tong University Science and Technology Park Company Limited). Mr. Cheng is a board representative for Shanghai Xin Xuhui (Group) Limited.

**DIRECTORS** (cont'd)*Executive Directors (cont'd)*

Mr. Chen Weifeng (陳偉豐), aged 51, holds a Master degree and is a Senior Engineer. Mr. Chen joined the Company at the end of 2000 and is the Vice Chairman of the Company responsible for the overall business planning and positioning. Since 1993, Mr. Chen has acted as 副所長 (Vice President) and senior engineer of the 信息產業部第23所 (23rd Institute of the Ministry of Information Industry). Mr. Chen is the General Manager of Shanghai Technology Investment Company and Chairman of 上海嘉定高科技園區 (Shanghai Jia Ding High-tech District), 上海科技同濟信息有限公司 (Shanghai Technology Tong Ji Information Company) and 上海科技會展有限公司 (Shanghai Technology Exhibition Company) respectively and vice chairman of 上海申騰信息技術有限公司 (Shanghai Shen Teng Information Technology Company) and 上海科技投資股份有限公司 (Shanghai Science & Technology Investment Company Limited). Mr. Chen is a board representative for Shanghai Technology Investment Company.

Professor Chen Jianbo (陳劍波), aged 38, holds a Doctorate degree, is a Professor and mentor for doctorate students. Professor Chen also holds a Master in Business Administration from 中歐工商管理學院 (Sino-European Institute of Business Administration). Professor Chen is one of the founders of the Company since its incorporation in May 1998. He is an executive Director of the Company. Professor Chen was engaged in numerous technological research projects both at state-level, Shanghai city as well as project 863. He has vast experience in the research and development of network and information security and data communication. Professor Chen commenced his teaching career at Shanghai Jiao Tong University after he graduated from Shanghai Jiao Tong University in 1987 and was assigned to establish the Company in 1998. He was the assistant to the 電子信息學院院長 (Dean of the College of Electronic Data and Information) and is at present the 信息安全工程學院副院長 (Vice Dean of the College of Data and Information Security Engineering) at Shanghai Jiao Tong University. Dr. Chen also acts as the Chairman of Shanghai 863 Software Incubator Company Limited, Deputy General Manager of Shanghai Technology Investment Company, Vice Chairman of Shanghai Ton Tron Information Technology Company Limited, executive director and General Manager of Jiaoda Withub Technology.

Mr. Yuan Tingliang (袁廷亮), aged 56, holds a Bachelor degree and is a Senior Engineer. Mr. Yuan joined the Company in May 1998 when it was incorporated and is an executive Director of the Company responsible for the direction and positioning of the overall business operations. Since 1982, Mr. Yuan has acted in various positions at Shanghai Jiao Tong University, including the 精密儀器系副系主任 (Assistant Supervisor of the Department of Precision Instrument) and the 電子信息學院 (Assistant Dean of the College of Electronic Information). Mr. Yuan has also been actively involved in the research and development in the technology field. Mr. Yuan is a board representative of Jiaoda Industrial Investment Management Group Limited.

## DIRECTORS (cont'd)

### Executive Directors (cont'd)

Mr. Hua Xin (華欣), aged 34, holds a Bachelor degree. Mr. Hua joined the Company at its incorporation in 1998 and is an executive Director of the Company. He has many years of experience in asset management and finance and is responsible for the overall planning of operations and finance of the Company. Since 1995, Mr. Hua has acted as 副科長 (Deputy Section Chief) of the 徐匯區財政局預算科 (Budgetary Section of Xuhui District Finance Office) and the general manager of Shanghai Hui Xin Investment Operation Company Limited. He is currently a director in 上海軌道交通明珠線發展有限公司 (Shanghai Railway Transport Pearl Route Development Company), 上海匯宇物業置換有限公司 (Shanghai Hui Yu Property Exchange Company) and 上海徐匯高科技產業發展有限公司 (Shanghai Xuhui High-tech Industrial Development Company). Mr. Hua is a board representative of Shanghai Hui Xin Investment Operation Company Limited.

### Independent Non-executive Directors

Professor Shao Shihuang (邵世煌), aged 64, is an independent non-executive Director. Professor Shao is a professor as well as mentor for doctorate students (博士生導師) in Donghua University (東華大學). Professor Shao graduated from Nanjing Polytechnic Institute (南京工學院·現東南大學) in 1960 specialised in industrial electrical automation (工業企電氣自動化專業) and was a visiting scholar in the University of Maryland in the United States. Professor Shao is the 副理事長 (vice chairman) of 中國紡織工程學會 (Textile Engineer Society of the PRC) and 上海市微電腦應用學會 (Society of Micro-Computer Application of Shanghai). He has been awarded the 國家科技進步二等獎 (National Technology Advancement Second Tier Award), two 上海市教學改革二等獎 (Shanghai Municipal Education Reform Second Tier Award), 上海市科技進步三等獎 (Shanghai Municipal Technology Advancement Third Tier Award) and was accredited as 全國高等學校科技先進工作者 (National Tertiary Schools' Pioneer). Professor Shao was appointed by the Company in September 2001.

Professor Gu Junzhong (顧君忠), aged 53, is an independent non-executive Director. Professor Gu holds a Master degree and is a supervisor of 多媒體技術研究室 (the Multimedia Information Technology Research Centre) of 華東師範大學 (East China Normal University) 計算機科學技術系 (Department of Computer Science and Technology), 第二屆上海市信息化專家委員 (Member of the second IT Advisor Committee of Shanghai Municipal Government), 上海信息港專家委員會專家組成員 (expert group member of the Expert Committee of Shanghai Infoport). Professor Gu started teaching at 華東師範大學 (East China Normal University) since 1982 and became a professor since 1991 and a mentor for doctorate students since 1994. Professor Gu also acted several times as the guest researcher at the National Information Technology Research Centre (GMD) in Germany during the period from 1987 to 1997. He has published numerous thesis in publications and conferences both in the PRC and overseas, and has obtained various awards and recognitions in the PRC. Professor Gu was appointed by the Company in December 2001.

**DIRECTORS** (cont'd)*Independent Non-executive Directors (cont'd)*

Mr. Herman Shao-ming HU (胡曉明), JP, BSc, FCIBSE, FHKIE, MBIM, MIEEE, CEng., aged 49, is an executive Director of Ryoden Development Limited, a listed company in Hong Kong, and an executive director of Ryoden (Holdings) Limited. In addition to Mr. Hu's extensive business experience in Hong Kong and Mainland China, he also serves a number of prominent duties, including; member of Chinese People's Political Consultative Conference, Shanghai; member of Economic Advisory Committee, HKSAR Government; member of Business Advisory Group, HKSAR Government; member of Hong Kong Sports Development Board and Hong Kong Employees Retraining Board. Mr. Hu is also a concurrent professor of Shanghai Jiao Tong University, Xian Jiaotong University and Hua Dong University of Science & Technology. Mr. Hu was appointed by the Company in December 2001 as an independent non-executive director.

**SUPERVISORS**

Ms. Yuan Cai Feng (袁彩鳳女士), aged 57, is the chairlady of the Company's supervisory committee responsible for the supervision of the overall business and financial activities of the Company. Ms. Yuan holds an undergraduate degree and is a registered auditor in the PRC. Ms. Yuan had worked in 上海市徐匯區財政局 (Shanghai Xuwei District Finance Department) and 上海市徐匯區審計局 (Shanghai Xuwei District Audit Department) since 1961 and is currently working in 上海天城會計師事務所有限公司 (Shanghai Tian Cheng Certified Public Accountants Co., Ltd.) as consultant. She was appointed by the Company on 23 September 2000.

Mr. Mo Zhenxi (莫振喜), aged 48, is a Supervisor of the Company responsible for the supervision of the Company's operation and financial activities. Mr. Mo holds a bachelor degree. Since 1979, he had held several positions including deputy-secretary in 上海汽車配件廠配覺支部 (Shanghai Motor Parts Distribution Department), 紀檢員 (a prosecutor) in 上海市紀委正科 (Shanghai Disciplinary Correction Section) and a department head in Shanghai Technology Investment Company. Mr. Mo was appointed by the Company on 23 April 1998.

Mr. Wang Qiuhua (王秋華), aged 35, is a Supervisor of the Company responsible for the supervision of the overall operation and financial activities in the Company. He holds a Bachelor degree and is an accountant. Since 1998, Mr. Wang had worked in several positions in Shanghai Jiao Tong University including the auditing department, property management committee as a financial controller, settlement department as a deputy executive and the disciplinary committee. He had also worked as a deputy commissioner in the 監察審計處 (Auditing Department). Mr. Wang was appointed by the Company on 23 April 1998.

Ms. Qin Yan (秦燕), aged 28, is the representative of the employees and is a Supervisor of the Company. Ms. Qin is the manager of the integration department of the Company responsible for network integration design and wiring design. She graduated with Bachelor degree in 上海華東工業大學 (Shanghai Hua Dong Polytechnical University) specialized in complex machinery and subsequently obtained a master degree specialised in measurement techniques and instruments. Ms. Qin was appointed by the Company on 23 September 2000.



## SUPERVISORS (cont'd)

Mr. Yao Benqiang (姚本強), aged 50, is a Supervisor of the Company responsible for the supervision of financial activities. Mr. Yao has over 21 years of experience in financial accounting and auditing. Mr. Yao joined Shanghai Xin Xuhui in 1995 and became the financial controller in 1998. He was awarded 上海市財務總監業務培訓班證書 (the Certificate of Continuing Education of Shanghai Chief Financial Officer) and is the 徐匯區內部審計協會副理事長 (Vice chief counsel of Xuhui District Internal Audit Committee), 區會計學會理事 (council member of District Accountancy Committee) and 市成本研究會會員 (member of the City Costing Research Committee). Mr. Yao was appointed by the Company on 14 December 2001.

## SENIOR MANAGEMENT

Mr. Wang Yiming (王亦鳴), aged 35, is a general manager of the Company responsible for the planning and implementation of overall business operations as well as determining the positioning and direction for technological research and development. Mr. Wang graduated from the electronic information department of Shanghai Jiao Tong University with a bachelor degree in electronic and a Master in Business Administration degree from the management department. He has taught in Shanghai Jiao Tong University since 1989. Mr. Wang was involved in the establishment of the Company in 1998 and possesses knowledge and experience in the development and management of network security, electronic communications and modernisation of information infrastructure of government agencies. He is the chairman of Shanghai Huikang Information Technology Company Limited, Vice Chairman of Shanghai Jiaoda Withub Software Company Limited and Shanghai Withub Duogao Information Construction Company Limited, and executive director of Shanghai Jiaoda Withub Technology Street Company Limited. Mr. Wang was appointed by the Company in May 1998.

Mr. Wang Decai (王德才), aged 42, is a deputy general manager of the Company engaging in the development of executive and business administration strategies of the Company. He is also the general manager of Shanghai Jiaoda Withub Software Company Limited. Since 1980, Mr. Wang had worked in various positions including 上海市糖業煙酒公司 (Shanghai Sweets, Tobacco and Alcohol Industry Company) as a financial section officer, 上海嘉士德華海集團 (Shanghai Jia Shi De-Hua Hai Group) as a manager in the finance department and 上海中創靜安商業發展總公司 (Shanghai Chun Chon Ching On Business Development Head Office) as a manager in the finance department. Mr. Wang possesses knowledge in financial operation and business management. He was appointed by the Company in May 1998.

Mr. Yu Xun (郁迅), aged 29, is a general manager assistant of the Company and is a general manager of the Group's research and development centre mainly responsible for the overall strategic planning, implementation and management of technical developments in the Company. Mr. Yu graduated with a master degree specialised in communications and electronic system from the information department of Shanghai Jiao Tong University and is one of the main designers of the Company's firewall system, Witnet-Video series of products, 小區雙向CATV多功能智能化服務系統 (building management system). Mr. Yu possesses knowledge in network and information security and electronic communications. He was formally appointed by the Company in March 1999.

## SENIOR MANAGEMENT (cont'd)

Mr. Li Yonghua (李勇華), aged 40, is a manager assistant of the Company mainly responsible for the strategic development, implementation and sales of system integration and software products of the Company. Mr. Li graduated from Wah Tong Polytechnical University specialised in inorganic materials science and engineering. Since 1990, Mr. Li had worked in various positions including 上海三環工程成套聯營公司 (Shanghai San Huan Engineering Company) as a technical section chief and 上海機械工程成套總公司 (Shanghai Mechanical Engineering Company) as a Deputy Manager in the engineering department. He possesses knowledge in project management and implementation. Mr. Li was formally appointed by the Company in June 1999.

Mr. Chen Peicheng (陳培誠), aged 43, is a general manager assistant of the Company mainly responsible for the sales of the Group's firewall and Witnet Video products. Mr. Chen had held positions in 上海三眾電腦公司 (Shanghai San Zhong Computer Company), 上海金征飛電腦公司 (Shanghai Jin Zheng Fei Computer Company) and Shanghai Withub Yuanhao Electronics Company Limited as a General Manager since 1994. He possesses knowledge in IT market operations. Mr. Chen was appointed by the Group in December 2000.

Mr. Li Jinhua (李金華), aged 45, is a general manager of Shanghai Huikang Information Technology Company Limited mainly responsible for development and sales of the electromagnetic interference device developed by the Company. Between 1980 and 2000, Mr. Li worked in 上海市委辦公廳 (Shanghai Provincial Office). He was appointed by the Group in January 2001.

Mr. Hui Wing Sang, Wilson (許永生) AHKSA, AAIA, ACIS, ACS, aged 35, is the company secretary and the qualified accountant of the Company. Mr. Hui holds a MBA degree (University of Surrey, UK), a Master degree of Arts, (City University of Hong Kong) and a Bachelor degree (University of Hertfordshire, UK). Mr. Hui worked for several listed companies in Hong Kong and had more than 10 years accounting and finance experience. Mr. Hui was appointed by the Company in February 2002.

# REPORT OF THE DIRECTORS

The Board of Directors is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2002.

## SUB-DIVISION AND LISTING

The Company was established on 4 May 1998 in the PRC as a joint stock limited company by way of promotion.

On 19 November 2001, China Securities Regulatory Commission (“CSRC”) issued an approval (Guo He Han 2001 No. 105) consenting to the Company applying for the listing of the H shares of the Company on GEM. On 27 April 2002, CSRC issued an approval (Zheng Jian Guo He Zi 2002 No. 9) approving, among other matters, the placing of shares and sub-division of shares in the Company. Subsequently, the Company’s H shares have been listed on the GEM of the Stock Exchange since 31 July 2002.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the development and provision of business application solutions which include business solutions, application software, network and data security products and is also engaged in the sale of distributed products.

## ARTICLES OF ASSOCIATION

A new set of Articles of Association was adopted by the Company by resolutions passed by the shareholders of the Company on 7 July 2002 and 22 July 2002.

## MAJOR CUSTOMERS AND SUPPLIERS

In the period under review, the Group’s sales to the five largest customers accounted for 31.6% of the Group’s turnover for the year, of which the largest customer accounted for 9.9% of the Group’s turnover for the year.

Purchases from major suppliers accounted for the following percentages:

|                                                 |       |
|-------------------------------------------------|-------|
| The largest supplier:                           | 44.8% |
| Total percentage of the five largest suppliers: | 60.3% |

Save as disclosed above, as far as the Directors are aware, neither the Directors or their associates nor any shareholders (which to the knowledge of the Directors own more than 5% of the Company’s issued capital) and management shareholders had any material interest in the five largest customers and five largest suppliers.

## RESULTS

The Group's results and financial position for the year ended 31 December 2002 are set out in the annual report on pages 35 to 68.

## DIVIDENDS

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2002.

## FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for each of the four years ended 31 December 2002 is set out on pages 69 to 70 of the annual report.

## PLANT AND EQUIPMENT

Details of the movements in the plant and equipment of the Group and of the Company during the year are set out in note 12 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

## SHARE OPTION SCHEME

The Company conditionally adopted a Share Option Scheme by a resolution of all shareholders of the Company on 7 July 2002. The Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

The maximum number of H shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30 per cent. of the H shares in issue from time to time. The total number of H shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 13,200,000 H shares, being 10 per cent. of issued H shares. The total number of H shares issued and which may fall to be issued upon exercise of the options granted or to be granted under the Share Option Scheme and any other share option scheme of the Group to each grantee in any 12-month period up to the date of grant shall not exceed one per cent. of the H shares in issue for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such grantee and his associates abstaining from voting.

## SHARE OPTION SCHEME (cont'd)

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. No eligible participants who are PRC nationals and have taken up any options to subscribe for H shares shall be entitled to exercise any such options until the current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H shares or any laws or regulations with similar effects (the "H Shares Restrictions") have been abolished or removed. Options may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of offer for the grant of the option subject to the provisions for early termination thereof. The subscription price for H shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (aa) the closing price of the H shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (bb) the average closing price of the H shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (cc) the nominal value of the H shares.

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

## RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 23 to the consolidated financial statements.

## RETIREMENT BENEFITS

Details of the retirement benefit schemes of the Group are set out in note 24 to the consolidated financial statements.

## DIRECTORS AND SUPERVISORS

The directors of the Company during the year and up to the date of this report were:

### *Executive directors*

Professor Xu Xiaoming (許曉鳴)  
Mr. Cheng Min (程敏)  
Mr. Chen Weifeng (陳偉豐)  
Professor Chen Jianbo (陳劍波)  
Mr. Yuan Tingliang (袁廷亮)  
Mr. Hua Xin (華欣)

## DIRECTORS AND SUPERVISORS (cont'd)

### *Independent Non-executive Directors*

Professor Shao Shihuang (邵世煌)  
 Professor Gu Junzhong (顧君忠)  
 Mr. Herman Shao-ming Hu (胡曉明)

### *Supervisors (the "Supervisor", members of the supervisory committee of the Company)*

Ms. Yuan Cai Feng (袁彩鳳)  
 Mr. Mo Zhenxi (莫振喜)  
 Mr. Wang Qiuhua (王秋華)  
 Ms. Qin Yan (秦燕)  
 Mr. Yao Benqiang (姚本強)

According to the provisions of the Articles of Association of the Company, all the directors are subject to re-election at a general meeting upon the expiration of their service contracts.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and the Supervisors has entered into a service agreement with the Company on 7 July 2002. Each service contract is for an initial term of three years commencing from 7 July 2002.

Except Prof. Chen Jianbo, each of the executive Directors and the Supervisors is not entitled to any salary or other remuneration and/or benefits under such service agreement.

The Company did not enter into any service contract with its non-executive Directors.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set out on pages 18 to 23 of the Annual Report.

## DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and that of the highest paid employees are set out in note 7 to the consolidated financial statements.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 December 2002, except for those shares as set out below, none of the Directors, chief executives and the Supervisors had any personal, family, corporate or other interests in the shares of the Company or its associated corporations (within the meaning of the SDI Ordinance) pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

In addition, save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in respect of the Directors, chief executives and the Supervisors, as at 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

| Shareholder                                          | Class of shares | Number of shares     | Approximate percentage of shareholding or attributable shareholding in the Company |
|------------------------------------------------------|-----------------|----------------------|------------------------------------------------------------------------------------|
| Shanghai Jiao Tong University                        | Domestic        | 114,000,000 (Note 1) | 23.75%                                                                             |
| Shanghai Jiaoda Nanyang Company Limited              | Domestic        | 85,500,000           | 17.81%                                                                             |
| Shanghai Huixin Investment Operation Company Limited | Domestic        | 57,000,000           | 11.88%                                                                             |
| Shanghai Technology Investment Company               | Domestic        | 57,000,000           | 11.88%                                                                             |
| Shanghai Xin Xuhui (Group) Limited                   | Domestic        | 60,000,000           | 12.50%                                                                             |
| Xuhui District Industrial Association                | Domestic        | 60,000,000 (Note 2)  | 12.50%                                                                             |

## SUBSTANTIAL SHAREHOLDERS (cont'd)

Note:

1. These 114,000,000 Domestic Shares are respectively registered and owned as to 28,500,000 Domestic Shares by Shanghai Jiaoda Industrial Investment Management (Group) Limited, the registered capital of which is owned as to 96.735% by Shanghai Jiao Tong University and as to 3.265% by Shanghai Jiaoda Enterprise Management Centre, an entity wholly-owned by Shanghai Jiao Tong University, and as to remaining 85,500,000 Domestic Shares by Shanghai Jiaoda Nanyang Company Limited, the Shares in issue of which are owned as to approximately 43.7% by Shanghai Jiao Tong University. Shanghai Jiao Tong University is deemed to be interested in the aggregate of 114,000,000 Domestic Shares held by Shanghai Jiaoda Industrial Investment Management (Group) Limited and Shanghai Jiaoda Nanyang Company Limited under the SDI Ordinance.
2. These 60,000,000 Domestic Shares are registered and owned by Shanghai Xin Xuhui (Group) Limited, the registered capital of which will be owned as to approximately 74.58% by Xuhui District Industrial Association after the completion of certain capital reorganisation as referred to in the Prospectus. Xuhui District Industrial Association is deemed to be interested in the 60,000,000 Domestic Shares held by Shanghai Xin Xuhui (Group) Limited under the SDI Ordinance.

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

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SPONSOR'S INTEREST

Pursuant to the agreement dated 25 July 2002 entered into between the Company and Tai Fook Capital Limited ("Tai Fook Capital"), Tai Fook Capital received a fee for acting as the Company's retained sponsor for the period from 31 July 2002 to 31 December 2002. Such agreement was terminated on 1 January 2003 and Guotai Junan Capital Limited ("Guotai Junan Capital") was appointed as the new sponsor to the Company with effect from 1 January 2003.

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

As updated and notified by Tai Fook Capital, neither Tai Fook Capital nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2002.

As updated and notified by Guotai Junan Capital, neither Guotai Junan Capital nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2002.



## CONNECTED TRANSACTIONS

The connected transactions as specified in the GEM Listing Rules undertaken by the Group are as follows:

i) Name and relationship of connected parties

|                                                                  |                                                                                                       |
|------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Shanghai Jiao Tong University                                    | Shareholder of Shanghai Jiaoda Industrial Investment Management (Group) Limited                       |
| Shanghai Jiaoda Industrial Investment Management (Group) Limited | Shareholder of the Company                                                                            |
| Shanghai Jiaoda Science and Technology Park Company Limited      | Subsidiary of Shanghai Jiao Tong University                                                           |
| Shanghai Withub Duogao Information Construction Company Limited  | Associate of the Company and with a common shareholder of the Company (Shanghai Jiao Tong University) |
| Shanghai Qi Pu Technology Company Limited                        | Subsidiary of Shanghai Jiao Tong University                                                           |

ii) Significant related party transactions during the year are:

RMB'000

(a) Project income from connected parties

|                                                                    |       |
|--------------------------------------------------------------------|-------|
| – Shanghai Jiao Tong University                                    | 437   |
| – Shanghai Jiaoda Industrial Investment Management (Group) Limited | 11    |
| – Shanghai Jiaoda Science and Technology Park Company Limited      | 1,148 |
| – Shanghai Withub Duogao Information Construction Company Limited  | 769   |
| – Shanghai Qi Pu Technology Company Limited                        | 364   |

(b) Sale of goods to a connected party

|                                 |    |
|---------------------------------|----|
| – Shanghai Jiao Tong University | 91 |
|---------------------------------|----|

(c) Purchase of goods from a connected party

|                                             |     |
|---------------------------------------------|-----|
| – Shanghai Qi Pu Technology Company Limited | 812 |
|---------------------------------------------|-----|

## CONNECTED TRANSACTIONS *(cont'd)*

In accordance with the conditions agreed with the Stock Exchange with respect to certain connected transactions, the independent non-executive directors have reviewed the connected transactions. In their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) within the relevant cap amounts as agreed with the Stock Exchange.

The auditors of the Company reviewed the aforesaid connected transactions (a) to (c) above, and advised the board of directors in writing that:

- (1) the connected transactions were approved by the board of directors;
- (2) the connected transactions were entered into in accordance with the relevant agreement governing the transactions, and in accordance with the pricing policies of the Group if the transactions involve provision of goods or services; and
- (3) the connected transactions were within the relevant caps applicable to such transactions under the waiver granted by the Stock Exchange.

## AUDIT COMMITTEE

The Company established an audit committee on 7 July 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee comprises the two independent non-executive directors, Professor Shao Shihuang and Professor Gu Junzhong.

The Company's financial statements for the year ended 31 December 2002 have been reviewed by the audit committee, who recommended such statements to the Board. The audit committee has also reviewed and confirmed the connected transactions undertaken by the Company during the year ended 31 December 2002. The financial reporting process and internal control of the Company have also been reviewed by the audit committee, who were of the opinion that no further improvement was required for the time being. During the year, the audit committee has held three formal meetings.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since its listing on 31 July 2002.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## AUDITORS

A resolution to re-appoint Messrs. BDO International and Shanghai Zhonghua Certified Public Accountants Co, Ltd. as international and domestic auditors of the Company respectively will be proposed at the forthcoming annual general meeting to be held on 20 May 2003.

On behalf of the Board

**Xu Xiaoming**

*Chairman*

Shanghai, the PRC, 25 March 2003

# REPORT OF THE SUPERVISORY COMMITTEE

## **To: All Shareholders**

Shanghai Jiaoda Withub Information Industrial Company Limited has complied with the Company Law of the PRC during the year ended 31 December 2002, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principles of honesty and trustworthiness and worked cautiously and diligently.

During the year we carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the prospectus of the Company dated 25 July 2002 for the listing of the Company's H shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited except for the investment in government bonds which was disclosed in the circular dated 24 January 2003. We believed that the investment in government bonds would maximize the interests of shareholders. We provided reasonable suggestions and advice on the operations and development plans to the board and strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association of the Company or safeguarded the interests of shareholders.

After investigation, we consider that the financial statements of the Group and of the Company, audited by BDO International, truly and sufficiently reflect the operating results of the Group and asset positions of the Group and of the Company. We also reviewed the Report of the Directors and profit distribution proposal. We consider that the aforesaid report and proposal meet the requirements of the relevant regulations and articles of the Company. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principles of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Group. None of the Directors, general manager and the officers have abused their authorities, caused damage to the interests of the Group and infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained and are confident about the prospects and future development of the Group.

On behalf of the Supervisory Committee

**Yuan Cai Feng**

*Chairman of the Supervisory Committee*

Shanghai, the PRC, 25 March 2003



**BDO International**  
Certified Public Accountants  
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傳真:(八五二)二八一五 〇〇〇二

## TO THE SHAREHOLDERS OF

上海交大慧谷信息產業股份有限公司

## SHANGHAI JIAODA WITHUB INFORMATION INDUSTRIAL COMPANY LIMITED\*

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

We have audited the financial statements on pages 35 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BDO International

*Certified Public Accountants*

Hong Kong, 25 March 2003

\* *For identification purpose only*

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2002

|                                         | Notes | 2002<br>RMB'000 | 2001<br>RMB'000 |
|-----------------------------------------|-------|-----------------|-----------------|
| Turnover                                | 4     | 88,732          | 102,430         |
| Cost of sales                           |       | (64,606)        | (82,141)        |
| Gross profit                            |       | 24,126          | 20,289          |
| Other revenue                           | 5     | 3,791           | 3,274           |
| Distribution costs                      |       | (3,800)         | (3,780)         |
| Research and development expenses       |       | (5,120)         | (2,042)         |
| Administration expenses                 |       | (13,178)        | (11,857)        |
| Profit from operations                  | 6     | 5,819           | 5,884           |
| Finance costs                           | 8     | (262)           | (2,285)         |
| Gain on disposal of subsidiaries        |       | –               | 511             |
| Gain on deemed disposal of an associate |       | –               | 46              |
| Share of losses from associates         |       | (154)           | (916)           |
| Profit before taxation                  |       | 5,403           | 3,240           |
| Taxation                                | 9     | (879)           | (1,010)         |
| Net profit before minority interests    |       | 4,524           | 2,230           |
| Minority interests                      |       | (518)           | 410             |
| Net profit for the year                 | 10    | 4,006           | 2,640           |
| Dividends                               |       | –               | –               |
| Earnings per share (in RMB)             | 11    |                 |                 |
| – Basic                                 |       | 0.0097          | 0.0081          |
| – Diluted                               |       | N/A             | N/A             |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2002

|                                         | Notes | 2002<br>RMB'000 | 2001<br>RMB'000 |
|-----------------------------------------|-------|-----------------|-----------------|
| <b>Non-current assets</b>               |       |                 |                 |
| Plant and equipment                     | 12    | 2,750           | 2,524           |
| Interests in associates                 | 14    | 18,201          | 8,112           |
| Intangible asset                        | 15    | 4,650           | 4,950           |
| Goodwill                                | 16    | 126             | 172             |
| Other non-current asset                 | 17    | 150             | 1,150           |
|                                         |       | <b>25,877</b>   | 16,908          |
| <b>Current assets</b>                   |       |                 |                 |
| Inventories                             | 18    | 12,752          | 5,949           |
| Trade debtors                           | 19    | 22,325          | 6,050           |
| Deposits, prepayments and other debtors |       | 6,493           | 6,361           |
| Other investments                       | 20    | 22,403          | 1,962           |
| Amounts due from related parties        | 26    | 1,629           | 2,144           |
| Amounts due from associates             |       | 280             | 242             |
| Cash and bank balances                  |       | 58,779          | 17,821          |
|                                         |       | <b>124,661</b>  | 40,529          |
| <b>Current liabilities</b>              |       |                 |                 |
| Bank loan                               |       | 3,000           | 4,000           |
| Trade creditors                         | 21    | 9,579           | 3,464           |
| Other creditors and accrued expenses    |       | 15,375          | 10,666          |
| Income taxes payable                    |       | 1,983           | 1,102           |
|                                         |       | <b>29,937</b>   | 19,232          |
| <b>Net current assets</b>               |       | <b>94,724</b>   | 21,297          |
| <b>Total assets less liabilities</b>    |       | <b>120,601</b>  | 38,205          |
| Minority interests                      |       | (606)           | (88)            |
| <b>Net assets</b>                       |       | <b>119,995</b>  | 38,117          |
| <b>Shareholders' funds</b>              |       |                 |                 |
| Share capital                           | 22    | 48,000          | 36,000          |
| Reserves                                | 23    | 71,995          | 2,117           |
|                                         |       | <b>119,995</b>  | 38,117          |

On behalf of the Board

**CHENG MIN**  
Director

**HUA XIN**  
Director

The accompanying notes form an integral part of these financial statements.

# BALANCE SHEET

As at 31 December 2002

|                                         | Notes | 2002<br>RMB'000 | 2001<br>RMB'000 |
|-----------------------------------------|-------|-----------------|-----------------|
| <b>Non-current assets</b>               |       |                 |                 |
| Plant and equipment                     | 12    | 2,014           | 1,924           |
| Investments in subsidiaries             | 13    | 5,500           | 4,500           |
| Interests in associates                 | 14    | 20,313          | 17,113          |
| Intangible asset                        | 15    | 4,650           | 4,950           |
| Other non-current asset                 | 17    | 150             | 1,150           |
|                                         |       | <b>32,627</b>   | <b>29,637</b>   |
| <b>Current assets</b>                   |       |                 |                 |
| Inventories                             | 18    | 10,954          | 4,662           |
| Trade debtors                           | 19    | 19,286          | 5,261           |
| Deposits, prepayments and other debtors |       | 5,706           | 2,291           |
| Other investments                       | 20    | 22,403          | 1,500           |
| Amount due from a subsidiary            |       | 600             | –               |
| Amounts due from related parties        | 26    | 1,629           | 2,144           |
| Amounts due from associates             |       | 280             | 242             |
| Cash and bank balances                  |       | 56,043          | 16,773          |
|                                         |       | <b>116,901</b>  | <b>32,873</b>   |
| <b>Current liabilities</b>              |       |                 |                 |
| Trade creditors                         | 21    | 9,100           | 3,424           |
| Other creditors and accrued expenses    |       | 12,300          | 7,115           |
| Amount due to a subsidiary              |       | 2,205           | 1,167           |
| Income taxes payable                    |       | 1,907           | 1,102           |
|                                         |       | <b>25,512</b>   | <b>12,808</b>   |
| <b>Net current assets</b>               |       | <b>91,389</b>   | <b>20,065</b>   |
| <b>Net assets</b>                       |       | <b>124,016</b>  | <b>49,702</b>   |
| <b>Shareholders' funds</b>              |       |                 |                 |
| Share capital                           | 22    | 48,000          | 36,000          |
| Reserves                                | 23    | 76,016          | 13,702          |
|                                         |       | <b>124,016</b>  | <b>49,702</b>   |

On behalf of the Board

**CHENG MIN**  
Director

**HUA XIN**  
Director

The accompanying notes form an integral part of these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## The Group

|                                                                | Share capital<br>RMB'000 | Share premium<br>RMB'000 | Capital reserve<br>RMB'000 | Statutory reserves<br>RMB'000 | Retained profits/<br>(accumulated losses)<br>RMB'000 | Total<br>RMB'000 |
|----------------------------------------------------------------|--------------------------|--------------------------|----------------------------|-------------------------------|------------------------------------------------------|------------------|
| At 31 December 2000                                            | 30,000                   | –                        | 8,896                      | –                             | (11,719)                                             | 27,177           |
| Increase of share capital                                      | 6,000                    | 2,300                    | –                          | –                             | –                                                    | 8,300            |
| Net profit for the year                                        | –                        | –                        | –                          | –                             | 2,640                                                | 2,640            |
| At 31 December 2001                                            | 36,000                   | 2,300                    | 8,896                      | –                             | (9,079)                                              | 38,117           |
| Issuance of overseas public shares (H shares), net of expenses | 12,000                   | 58,768                   | –                          | –                             | –                                                    | 70,768           |
| Recognition of unrealised gain on consolidation                | –                        | –                        | 7,104                      | –                             | –                                                    | 7,104            |
| Net profit for the year                                        | –                        | –                        | –                          | –                             | 4,006                                                | 4,006            |
| Transfer of reserve                                            | –                        | –                        | –                          | 19                            | (19)                                                 | –                |
| At 31 December 2002                                            | 48,000                   | 61,068                   | 16,000                     | 19                            | (5,092)*                                             | 119,995          |

\* Included in the Group's retained profits/(accumulated losses) is a surplus of RMB16,000 retained in a subsidiary (2001: Nil) which is non-distributable. Details are set out in note 13.

## The Company

|                                                                |        |        |        |    |         |         |
|----------------------------------------------------------------|--------|--------|--------|----|---------|---------|
| At 31 December 2000                                            | 30,000 | –      | 16,000 | –  | (7,744) | 38,256  |
| Increase of share capital                                      | 6,000  | 2,300  | –      | –  | –       | 8,300   |
| Net profit for the year                                        | –      | –      | –      | –  | 3,146   | 3,146   |
| At 31 December 2001                                            | 36,000 | 2,300  | 16,000 | –  | (4,598) | 49,702  |
| Issuance of overseas public shares (H shares), net of expenses | 12,000 | 58,768 | –      | –  | –       | 70,768  |
| Net profit for the year                                        | –      | –      | –      | –  | 3,546   | 3,546   |
| Transfer of reserve                                            | –      | –      | –      | 19 | (19)    | –       |
| At 31 December 2002                                            | 48,000 | 61,068 | 16,000 | 19 | (1,071) | 124,016 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

|                                                                | Note | 2002<br>RMB'000 | 2001<br>RMB'000 |
|----------------------------------------------------------------|------|-----------------|-----------------|
| <b>Cash flow from operating activities</b>                     |      |                 |                 |
| Profit before tax                                              |      | 5,403           | 3,240           |
| Adjustments for:                                               |      |                 |                 |
| Depreciation                                                   |      | 725             | 846             |
| Interest expenses                                              |      | 262             | 2,284           |
| Loss on disposal of plant and equipment                        |      | 15              | 162             |
| Amortisation of goodwill                                       |      | 46              | 46              |
| Amortisation of intangible asset                               |      | 300             | 300             |
| Dividends from unlisted securities                             |      | (109)           | (61)            |
| Net realised gain on disposal of other investments             |      | (371)           | (1,634)         |
| Net unrealised holding loss/(gain) on other investments        |      | 28              | (63)            |
| Gain on disposal of subsidiaries                               |      | -               | (511)           |
| Gain on deemed disposal of an associate                        |      | -               | (46)            |
| Share of losses from associates                                |      | 154             | 916             |
| Operating profit before working capital changes                |      | 6,453           | 5,479           |
| Increase in inventories                                        |      | (6,803)         | (2,015)         |
| Increase in trade debtors                                      |      | (16,275)        | (2,140)         |
| (Increase)/decrease in deposits, prepayments and other debtors |      | (132)           | 22,404          |
| Decrease in due from related parties                           |      | 515             | 18,373          |
| Increase in due from associates                                |      | (38)            | (242)           |
| Decrease in due from minority shareholders of subsidiaries     |      | -               | 2,433           |
| Increase/(decrease) in trade creditors                         |      | 6,115           | (3,422)         |
| Increase in other creditors and accrued expenses               |      | 4,709           | 3,577           |
| Decrease in due to related parties                             |      | -               | (594)           |
| Cash (used in)/generated from operations                       |      | (5,456)         | 43,853          |
| Income taxes paid                                              |      | (31)            | (418)           |
| Income taxes refunded                                          |      | 33              | -               |
| <b>Net cash (used in)/generated from operating activities</b>  |      | <b>(5,454)</b>  | <b>43,435</b>   |

The accompanying notes form an integral part of these financial statements.

For the year ended 31 December 2002

|                                                               | Note | 2002<br>RMB'000 | 2001<br>RMB'000 |
|---------------------------------------------------------------|------|-----------------|-----------------|
| <b>Cash flows from investing activities</b>                   |      |                 |                 |
| Purchase of plant and equipment                               |      | (966)           | (433)           |
| Proceeds from sale of plant and equipment                     |      | –               | 30              |
| Purchase of an associate                                      |      | (3,200)         | –               |
| Net cash inflow from disposal of subsidiaries                 |      | –               | 2,917           |
| Payment to acquire non-current assets                         |      | –               | (1,000)         |
| Net cash inflow from establishment of a subsidiary            | 17   | 1,000           | –               |
| Purchase of other investments                                 |      | (23,390)        | (23,541)        |
| Proceeds from sale of other investments                       |      | 3,292           | 24,432          |
| Purchase of an intangible asset                               |      | –               | (2,000)         |
| Dividends received from associates                            |      | 61              | 180             |
| Dividends received from other investments                     |      | 109             | 61              |
| <b>Net cash (used in)/generated from investing activities</b> |      | <b>(23,094)</b> | <b>646</b>      |
| <b>Cash flows from financing activities</b>                   |      |                 |                 |
| Dividends paid                                                |      | –               | (537)           |
| Interest paid                                                 |      | (262)           | (2,284)         |
| Net proceeds from issuance of shares                          |      | 70,768          | 3,500           |
| Repayment of loans                                            |      | (1,000)         | (39,000)        |
| <b>Net cash generated from/(used in) financing activities</b> |      | <b>69,506</b>   | <b>(38,321)</b> |
| <b>Net increase in cash and cash equivalents</b>              |      | <b>40,958</b>   | <b>5,760</b>    |
| <b>Cash and cash equivalents at beginning of year</b>         |      | <b>17,821</b>   | <b>12,061</b>   |
| <b>Cash and cash equivalents at end of year</b>               |      | <b>58,779</b>   | <b>17,821</b>   |

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

## 1. GENERAL

Shanghai Jiaoda Withub Information Industrial Company Limited (the “Company”) was incorporated on 4 May 1998 as a joint stock limited liability company in Shanghai, the People’s Republic of China (the “PRC”). The Company was listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 31 July 2002 by the placing of 132,000,000 overseas listed foreign shares (“H shares”) of RMB0.10 each at HK\$0.66 per H share. The placing of 132,000,000 H shares included 120,000,000 new H shares and 12,000,000 H shares converted from domestic shares of the Company.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the development and provision of business application solutions in the PRC which include business solutions, application software, network and data security products and are also engaged in the sale of distributed products.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared under the historical cost convention except for investments in securities which are measured at fair values.

## 3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances among group companies are eliminated on consolidation.

For the year ended 31 December 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (b) Subsidiaries

A subsidiary is a company in which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any.

#### (c) Associates

An associate is a company, not being a subsidiary, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investments in associates are accounted for in the consolidated financial statements under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investees. The consolidated income statement reflects the Group's share of the results of operation of the investees.

In the Company's balance sheet, investments in associates are carried at cost less impairment losses, if any.

Unrealised profit and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the income statement.

#### (d) Goodwill

Goodwill arising on acquisition of interest in a subsidiary or an associate represents the excess of the purchase consideration over the fair value of the Group's share of the separable net assets of subsidiaries/associates at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and impairment losses. Goodwill is written off to the income statement on a straight-line basis over its estimated useful economic life which is estimated not to exceed 20 years.

On disposal of a subsidiary/associate during the year, any attributable amount of purchased goodwill not previously amortised to the income statement is included in the calculation of the profit or loss on disposal.

For the year ended 31 December 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (e) Revenue recognition

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.

Gain or loss on disposal of listed securities is recognised on a trade-date basis.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from subsidiaries and associates is recognised when the right to receive dividend is established. Dividend income from other investments is recognised upon receipt of such dividend.

#### (f) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Certain items of income and expense are recognized for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### (g) Research and development costs

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development is charged to the income statement in the period in which it is incurred except where a clearly-defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of commercial operation.

For the year ended 31 December 2002

**3. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(h) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following annual rates:

|                                |                                                      |
|--------------------------------|------------------------------------------------------|
| Leasehold improvements         | The shorter of the lease terms or 33 $\frac{1}{3}$ % |
| Furniture and office equipment | 20% to 33 $\frac{1}{3}$ %                            |
| Motor vehicles                 | 20%                                                  |

**(i) Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities which are held for an identified long-term strategic purpose are measured at subsequent reporting dates at cost, as reduced by any impairment losses that are other than temporary.

For the year ended 31 December 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (i) Investments in securities (cont'd)

Securities not classified as investment securities or held-to-maturity securities are classified as other investments. Other investments are measured at fair value, with unrealised gains and losses accounted for in the income statement for the year. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

#### (j) Intangible assets

Intangible assets are measured initially at cost. An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives which are estimated not to exceed 20 years.

#### (k) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost, which comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using weighted average method.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (l) Foreign currencies

Foreign currency transactions during the year are translated into Renminbi ("RMB") at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the market rates of exchange ruling at that date. All exchange differences are dealt with in the income statement.

#### (m) Impairment

At each balance sheet date, the Group reviews the carrying amount(s) of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Expected future cash flows have been discounted in determining the recoverable amount.



For the year ended 31 December 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (m) Impairment (cont'd)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years.

#### (n) Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. Bank overdrafts which are repayable on demand are included as a component of cash and cash equivalents.

#### (o) Leases

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments under operating leases are charged against profits on a straight-line basis over the accounting periods covered by the lease terms.

#### (p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to bring to a condition suitable for its intended use or sale.

For the year ended 31 December 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### (q) Employee benefits

##### (i) Defined contribution retirement plan

The Group maintains defined contribution retirement plans, which are state sponsored retirement plans, for all of its employees. Obligations for contribution under such defined contribution retirement plans are recognised as an expense in the income statement as incurred.

##### (ii) Other employee entitlements

Employee entitlements to annual leave and other leaves are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and other leaves as a result of services rendered by employees up to the balance sheet date.

##### (iii) Equity compensation benefits

When the Group grants employees options to acquire shares of the Company and the option exercise price equals the market price of the underlying shares at the date of the grant, no employee benefit cost or obligation is recognised at the date of grant.

#### (r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (s) Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

For the year ended 31 December 2002

**3. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(t) Related parties**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

**4. TURNOVER**

|                                    | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|------------------------------------|------------------------|------------------------|
| Turnover represents revenue from   |                        |                        |
| Business solutions development     | 40,536                 | 26,610                 |
| Application software               | 4,970                  | 5,362                  |
| Network and data security products | 2,957                  | 561                    |
| Sales of distributed products      | 40,269                 | 69,897                 |
|                                    | <b>88,732</b>          | <b>102,430</b>         |

Turnover as disclosed above is net of applicable PRC business tax and value added tax.

All the Group's activities are conducted in the PRC and are within the same business segment.

**5. OTHER REVENUE**

|                                                  | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|--------------------------------------------------|------------------------|------------------------|
| Interest income                                  | 266                    | 140                    |
| Dividends from unlisted securities               | 109                    | 61                     |
| Net realised gain on disposal of                 |                        |                        |
| – government bonds                               | –                      | 1,470                  |
| – other listed securities                        | 371                    | 164                    |
| Net unrealised holding gain on listed securities | –                      | 63                     |
| Subsidies                                        | 1,234                  | 1,001                  |
| Tuition fees                                     | 994                    | –                      |
| Sundry                                           | 817                    | 375                    |
|                                                  | <b>3,791</b>           | <b>3,274</b>           |

For the year ended 31 December 2002

**6. PROFIT FROM OPERATIONS**

Profit from operations has been arrived after charging:

|                                                    | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|----------------------------------------------------|------------------------|------------------------|
| Auditors' remuneration                             | 480                    | 150                    |
| Amortisation of goodwill                           | 46                     | 46                     |
| Amortisation of intangible asset                   | 300                    | 300                    |
| Cost of inventories recognised as an expense       | 64,606                 | 82,141                 |
| Depreciation                                       | 725                    | 846                    |
| Loss on disposal of plant and equipment            | 15                     | 162                    |
| Provision for bad and doubtful debts               | 876                    | 226                    |
| Provision for obsolete and slow-moving inventories | 200                    | –                      |
| Staff costs (including directors' emoluments)      | <b>9,693</b>           | <b>7,838</b>           |

**7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

|  | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|--|------------------------|------------------------|
|--|------------------------|------------------------|

Details of directors' emoluments are as follows:

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Executive directors                        |            |            |
| Fees                                       | –          | –          |
| Salaries and other benefits                | 150        | 85         |
| Discretionary bonus                        | –          | 30         |
| Contributions to retirement benefit scheme | –          | –          |
|                                            | <b>150</b> | <b>115</b> |

|                     | 2002     | 2001 |
|---------------------|----------|------|
| Number of directors | <b>6</b> | 6    |

|  | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|--|------------------------|------------------------|
|--|------------------------|------------------------|

|                             |          |          |
|-----------------------------|----------|----------|
| Non-executive directors     |          |          |
| Fees                        | –        | –        |
| Salaries and other benefits | –        | –        |
|                             | <b>–</b> | <b>–</b> |

|                                   | 2002     | 2001 |
|-----------------------------------|----------|------|
| Number of non-executive directors | <b>3</b> | 3    |

For the year ended 31 December 2002

**7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (cont'd)

|                                                    | 2002<br>RMB'000 | 2001<br>RMB'000 |
|----------------------------------------------------|-----------------|-----------------|
| Details of supervisors' emoluments are as follows: |                 |                 |
| As supervisors                                     | –               | –               |
| As employees                                       |                 |                 |
| – Salaries and other benefits                      | 68              | –               |
| – Discretionary bonus                              | 15              | –               |
| – Contributions to retirement benefit scheme       | 2               | –               |
| Salaries and other benefits                        | <u>85</u>       | –               |
|                                                    | 2002            | 2001            |
| Number of supervisors                              | 5               | 5               |

The directors received individual emoluments of RMB150,000 for the year ended 31 December 2002 and RMB115,000 for the year ended 31 December 2001.

For the years ended 31 December 2002 and 2001, the five highest paid employees of the Group included one director. The details of emoluments paid to directors are set out above. Details of emoluments of the remaining highest paid individuals, other than the directors of the Group are as follows:

|                                              | 2002<br>RMB'000 | 2001<br>RMB'000 |
|----------------------------------------------|-----------------|-----------------|
| Salaries and other benefits                  | 431             | 343             |
| Discretionary bonus                          | 40              | 88              |
| Contributions to retirement benefit scheme   | 5               | 5               |
|                                              | <u>476</u>      | <u>436</u>      |
|                                              | 2002            | 2001            |
| Number of remaining highest paid individuals | 4               | 4               |

For the year ended 31 December 2002

**8. FINANCE COSTS**

|                                                           | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|-----------------------------------------------------------|------------------------|------------------------|
| Interest on bank loans wholly repayable within five years | 262                    | 2,281                  |
| Bank charges                                              | -                      | 4                      |
|                                                           | 262                    | 2,285                  |

**9. TAXATION**

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

|                                          | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|------------------------------------------|------------------------|------------------------|
| Provision for income taxes for the year  | 912                    | 1,010                  |
| Over provision in respect of prior years | (33)                   | -                      |
|                                          | 879                    | 1,010                  |

According to relevant PRC tax regulations, New and High Technology Enterprises operating within a New and High Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. The Company is recognised as a New and High Technology Enterprise and accordingly is subject to EIT at 15%. The subsidiaries of the Company are all subject to applicable EIT rate of 33%, except for Shanghai Withub Information and Professional Training School which is exempted from EIT.

The associates of the Company are all subject to EIT rate of 33% and have unutilised tax losses carried forward except for one associate which was exempted from EIT for each of the two years ended 31 December 2000 and is entitled to a 50% relief from EIT for the following three years. Share of results of associates by the Group included share of taxation of associates amounting to RMB61,000 and RMB26,000 for the year ended 31 December 2002 and 2001 respectively.

- (b) There were no material unprovided/unrecognised deferred tax liability/asset at the balance sheet dates.

For the year ended 31 December 2002

## 10. PROFIT FOR THE YEAR

The consolidated profit for the year includes a net profit of RMB3,546,000 (2001: RMB3,146,000) which has been dealt with in the financial statements of the Company.

## 11. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the profit attributable to shareholders of RMB4,006,000 (2001: RMB2,640,000) and on the weighted average number of 410,630,000 and 325,000,000 shares in issue for the years ended 31 December 2002 and 2001 respectively.

Diluted earnings per share for the years ended 31 December 2002 and 2001 have not been calculated as there were no dilutive potential shares during the two years ended 31 December 2002.

For the year ended 31 December 2002

**12. PLANT AND EQUIPMENT****The Group**

|                                    | Leasehold<br>improve-<br>ments<br><i>RMB'000</i> | Furniture,<br>and office<br>equipment<br><i>RMB'000</i> | Motor<br>vehicles<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|------------------------------------|--------------------------------------------------|---------------------------------------------------------|-------------------------------------|-------------------------|
| <b>Cost</b>                        |                                                  |                                                         |                                     |                         |
| Balance at 1 January 2002          | –                                                | 2,642                                                   | 1,410                               | 4,052                   |
| Additions                          | 271                                              | 695                                                     | –                                   | 966                     |
| Disposals                          | –                                                | (35)                                                    | –                                   | (35)                    |
| <b>Balance at 31 December 2002</b> | <b>271</b>                                       | <b>3,302</b>                                            | <b>1,410</b>                        | <b>4,983</b>            |
| <b>Accumulated depreciation</b>    |                                                  |                                                         |                                     |                         |
| Balance at 1 January 2002          | –                                                | 909                                                     | 619                                 | 1,528                   |
| Charge for the year                | –                                                | 449                                                     | 276                                 | 725                     |
| Eliminated on disposals            | –                                                | (20)                                                    | –                                   | (20)                    |
| <b>Balance at 31 December 2002</b> | <b>–</b>                                         | <b>1,338</b>                                            | <b>895</b>                          | <b>2,233</b>            |
| <b>Net book value</b>              |                                                  |                                                         |                                     |                         |
| <b>At 31 December 2002</b>         | <b>271</b>                                       | <b>1,964</b>                                            | <b>515</b>                          | <b>2,750</b>            |
| At 31 December 2001                | –                                                | 1,733                                                   | 791                                 | 2,524                   |

**The Company**

|                                    |            |              |              |              |
|------------------------------------|------------|--------------|--------------|--------------|
| <b>Cost</b>                        |            |              |              |              |
| Balance at 1 January 2002          | –          | 2,045        | 1,125        | 3,170        |
| Additions                          | 271        | 359          | –            | 630          |
| <b>Balance at 31 December 2002</b> | <b>271</b> | <b>2,404</b> | <b>1,125</b> | <b>3,800</b> |
| <b>Accumulated depreciation</b>    |            |              |              |              |
| Balance at 1 January 2002          | –          | 714          | 532          | 1,246        |
| Charge for the year                | –          | 322          | 218          | 540          |
| <b>Balance at 31 December 2002</b> | <b>–</b>   | <b>1,036</b> | <b>750</b>   | <b>1,786</b> |
| <b>Net book value</b>              |            |              |              |              |
| <b>At 31 December 2002</b>         | <b>271</b> | <b>1,368</b> | <b>375</b>   | <b>2,014</b> |
| At 31 December 2001                | –          | 1,331        | 593          | 1,924        |



For the year ended 31 December 2002

**13. INVESTMENTS IN SUBSIDIARIES**

|                               | 2002<br>RMB'000 | 2001<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Unlisted investments, at cost | 5,500           | 4,500           |

Particulars of subsidiaries are as follows:

| Name of company                                              | Place of incorporation | Registered/<br>paid-up<br>capital<br>RMB'000 | Percentage of<br>equity interests<br>attributable to<br>the Group | Principal activities                                    |
|--------------------------------------------------------------|------------------------|----------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------|
| Shanghai Jiaoda Withub Software Company Limited              | PRC                    | 5,000                                        | 82                                                                | Development and sale of business solutions and software |
| Shanghai Huikang Information Technology Company Limited      | PRC                    | 1,000                                        | 40<br><i>(note i)</i>                                             | Development and sale of data security products          |
| Shanghai Withub Information and Professional Training School | PRC                    | 1,000                                        | 100<br><i>(note ii)</i>                                           | Provision of tuition and training services              |

- i) Through the endorsement of voting rights to the Company by two minority shareholders, the Company is able to obtain control over more than one half of the voting rights in Shanghai Huikang Information Technology Company Limited ("Huikang"). Huikang is accounted for as a 40% owned subsidiary and consolidated into the group financial statements.
- ii) In 2002, the Company established Shanghai Withub Information Professional Training School ("School"), a non-profit making entity at a paid-up capital of RMB1,000,000. According to the articles of association of the School and the relevant regulations in the PRC governing educational institutions, all earnings and receipts from the School can only be used to improve its internal facilities and education quality and cannot be used for any other purpose or be distributed to its organiser.

For the year ended 31 December 2002

**13. INVESTMENTS IN SUBSIDIARIES** (cont'd)

Set out below is the condensed balance sheet of the School at 31 December 2002:

|                                         | <i>RMB'000</i> |
|-----------------------------------------|----------------|
| Bank balances                           | 1,061          |
| Current assets other than bank balances | 10             |
|                                         | 1,071          |
| Current liabilities                     | (55)           |
| Net assets                              | 1,016          |

**14. INTERESTS IN ASSOCIATES**

|                                                 | <b>2002</b><br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|-------------------------------------------------|-------------------------------|------------------------|
| <b>The Group</b>                                |                               |                        |
| Share of net assets                             | <b>18,201</b>                 | 15,216                 |
| Premium on acquisition                          | -                             | -                      |
|                                                 | <b>18,201</b>                 | 15,216                 |
| Elimination on unrealised gain on consolidation | -                             | (7,104)                |
|                                                 | <b>18,201</b>                 | 8,112                  |
| <b>The Company</b>                              |                               |                        |
| Unlisted investments, at cost                   | <b>20,313</b>                 | 17,113                 |

For the year ended 31 December 2002

**14. INTERESTS IN ASSOCIATES** (cont'd)

Particulars of principal associates are as follows:

| Name of associate                                               | Form of business structure                       | Place of incorporation | Percentage of equity interests attributable to the Group | Principal activities                                                |
|-----------------------------------------------------------------|--------------------------------------------------|------------------------|----------------------------------------------------------|---------------------------------------------------------------------|
| Shanghai Withub Duogao Information Construction Company Limited | Private limited liability company (joint equity) | PRC                    | 21                                                       | Design and construction of intelligent household systems            |
| Shanghai Jiaoda Withub Technology Company Limited               | Private limited liability company (joint equity) | PRC                    | 44.44                                                    | Development and sale of business solutions                          |
| Shanghai Ton Tron Information Technology Company Limited        | Private limited liability company (joint equity) | PRC                    | 32                                                       | Development and sale of business solutions and computer accessories |

**15. INTANGIBLE ASSET****The Group and the Company**

|                          | 2002<br>RMB'000 | 2001<br>RMB'000 |
|--------------------------|-----------------|-----------------|
| Cost                     | 6,000           | 6,000           |
| Accumulated amortisation | (1,350)         | (1,050)         |
| Net book value           | 4,650           | 4,950           |

Intangible asset represents an one-off fee paid to Shanghai Jiao Tong University (上海交通大學) in exchange for the use of the name “交大慧谷” and the right to engage the Electronic Information Institute of Shanghai Jiao Tong University to provide research and development support on a cost reimbursement basis.

The total consideration paid for the above contractual rights is RMB6,000,000. The contract term is 10 years extendable for a further term of 10 years at the discretion of the Company.

For the year ended 31 December 2002

**16. GOODWILL**

|                          | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|--------------------------|------------------------|------------------------|
| Cost                     | 230                    | 230                    |
| Accumulated amortisation | (104)                  | (58)                   |
| Net book value           | 126                    | 172                    |

**17. OTHER NON-CURRENT ASSET**

At 31 December 2002, other non-current asset represents a membership fee of RMB150,000 paid to Shanghai Technology Stock Exchange for the right to trade in technical know-how.

At 31 December 2001, it also included a cash fund of RMB1,000,000 earmarked for the establishment of a training centre, which had been established during the year.

**18. INVENTORIES****The Group**

|                                              | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|----------------------------------------------|------------------------|------------------------|
| Raw materials                                | 1,156                  | 888                    |
| Work in progress                             | 1,651                  | 2,206                  |
| Finished goods                               | 1,286                  | 1,061                  |
| Merchandise for resale                       | 9,354                  | 2,289                  |
|                                              | 13,447                 | 6,444                  |
| Provision for obsolete and slow-moving items | (695)                  | (495)                  |
|                                              | 12,752                 | 5,949                  |

For the year ended 31 December 2002

**18. INVENTORIES** (cont'd)

At 31 December 2002, included in finished goods and merchandise for resale is an amount of RMB447,000 (2001: RMB424,000) carried at net realisable value.

**The Company**

|                                              | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|----------------------------------------------|------------------------|------------------------|
| Raw materials                                | 710                    | 450                    |
| Work in progress                             | 986                    | 1,668                  |
| Finished goods                               | 599                    | 750                    |
| Merchandise for resale                       | 9,354                  | 2,289                  |
|                                              | <b>11,649</b>          | 5,157                  |
| Provision for obsolete and slow-moving items | (695)                  | (495)                  |
|                                              | <b>10,954</b>          | 4,662                  |

At 31 December 2002, included in finished goods and merchandise for resale is an amount of RMB447,000 (2001: RMB424,000) carried at net realisable value.

**19. TRADE DEBTORS****The Group**

|                              | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|------------------------------|------------------------|------------------------|
| Trade debtors                | 22,783                 | 6,293                  |
| Provision for doubtful debts | (458)                  | (243)                  |
|                              | <b>22,325</b>          | 6,050                  |

For the year ended 31 December 2002

**19. TRADE DEBTORS** (cont'd)

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

|                              | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|------------------------------|------------------------|------------------------|
| Aged:                        |                        |                        |
| 0 to 90 days                 | 16,575                 | 5,293                  |
| 91 to 180 days               | 3,555                  | 617                    |
| 181 to 365 days              | 771                    | 325                    |
| Exceeding 365 days           | 1,882                  | 58                     |
|                              | <b>22,783</b>          | <b>6,293</b>           |
| Provision for doubtful debts | (458)                  | (243)                  |
|                              | <b>22,325</b>          | <b>6,050</b>           |

**The Company**

|                              | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|------------------------------|------------------------|------------------------|
| Trade debtors                | 19,731                 | 5,490                  |
| Provision for doubtful debts | (445)                  | (229)                  |
|                              | <b>19,286</b>          | <b>5,261</b>           |

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

|                              | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|------------------------------|------------------------|------------------------|
| Aged:                        |                        |                        |
| 0 to 90 days                 | 13,530                 | 4,858                  |
| 91 to 180 days               | 3,555                  | 567                    |
| 181 to 365 days              | 764                    | 7                      |
| Exceeding 365 days           | 1,882                  | 58                     |
|                              | <b>19,731</b>          | <b>5,490</b>           |
| Provision for doubtful debts | (445)                  | (229)                  |
|                              | <b>19,286</b>          | <b>5,261</b>           |

For the year ended 31 December 2002

**20. OTHER INVESTMENTS****The Group**

|                                   | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|-----------------------------------|------------------------|------------------------|
| Debt securities                   |                        |                        |
| Listed in the PRC                 | 20,903                 | –                      |
| Equity securities                 |                        |                        |
| Unlisted in the PRC               | 1,500                  | 1,500                  |
| Listed in the PRC                 | –                      | 462                    |
|                                   | <b>22,403</b>          | <b>1,962</b>           |
| Market value of listed securities | <b>20,903</b>          | <b>462</b>             |

**The Company**

|                                   | 2002<br><i>RMB'000</i> | 2001<br><i>RMB'000</i> |
|-----------------------------------|------------------------|------------------------|
| Debt securities                   |                        |                        |
| Listed in the PRC                 | 20,903                 | –                      |
| Equity securities                 |                        |                        |
| Unlisted in the PRC               | 1,500                  | 1,500                  |
|                                   | <b>22,403</b>          | <b>1,500</b>           |
| Market value of listed securities | <b>20,903</b>          | <b>–</b>               |

For the year ended 31 December 2002

**21. TRADE CREDITORS**

|                    | 2002<br>RMB'000 | 2001<br>RMB'000 |
|--------------------|-----------------|-----------------|
| <b>The Group</b>   |                 |                 |
| Aged:              |                 |                 |
| 0 to 90 days       | 9,034           | 2,733           |
| 91 to 180 days     | 41              | 709             |
| 181 to 365 days    | 2               | 22              |
| Exceeding 365 days | 502             | -               |
|                    | <b>9,579</b>    | <b>3,464</b>    |
| <b>The Company</b> |                 |                 |
| Aged:              |                 |                 |
| 0 to 90 days       | 8,555           | 2,715           |
| 91 to 180 days     | 41              | 707             |
| 181 to 365 days    | 2               | 2               |
| Exceeding 365 days | 502             | -               |
|                    | <b>9,100</b>    | <b>3,424</b>    |



For the year ended 31 December 2002

**22. SHARE CAPITAL**

|                                                                      | 2002<br>RMB'000 | 2001<br>RMB'000 |
|----------------------------------------------------------------------|-----------------|-----------------|
| <i>Registered:</i>                                                   |                 |                 |
| 480,000,000 (2001: 36,000,000) shares of RMB0.1<br>(2001: RMB1) each | 48,000          | 36,000          |
| <i>Issued and fully paid:</i>                                        |                 |                 |
| 480,000,000 (2001: 36,000,000) shares of RMB0.1<br>(2001: RMB1) each | 48,000          | 36,000          |

The following changes in the registered capital and issued capital took place during the year ended 31 December 2002:

- i) The Company was listed on the GEM on 31 July 2002 by the placing of 132,000,000 H shares of RMB0.10 each at HK\$0.66 per share. The placing of 132,000,000 H shares included 120,000,000 new H shares and 12,000,000 H shares converted from domestic shares of the Company. Pursuant to shareholders' resolutions passed on 7 July 2002 and 22 July 2002 and as set out in the Company's prospectus dated 31 July 2002:
  - a. Each domestic share in the Company of nominal value of RMB1 each was sub-divided into ten shares of nominal value of RMB0.1 each;
  - b. The registered capital of the Company was increased from RMB36,000,000 to RMB48,000,000 by the creation of 120,000,000 H shares having a nominal value of RMB0.1 each;
  - c. The share option scheme, which is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group, and under which the director 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 was approved.

During the year ended 31 December 2002, no options under 22(i)(c) above were granted to any person.

For the year ended 31 December 2002

**23. RESERVES****The Group**

|                                                    | Share<br>premium<br>RMB'000 | Capital<br>reserve<br>RMB'000 | Statutory<br>reserves<br>RMB'000 | Retained<br>profits/<br>(accumulated<br>losses)<br>RMB'000 | Total<br>RMB'000 |
|----------------------------------------------------|-----------------------------|-------------------------------|----------------------------------|------------------------------------------------------------|------------------|
| At 31 December 2000                                | –                           | 8,896                         | –                                | (11,719)                                                   | (2,823)          |
| Premium on issue of shares                         | 2,300                       | –                             | –                                | –                                                          | 2,300            |
| Net profit for the year                            | –                           | –                             | –                                | 2,640                                                      | 2,640            |
| At 31 December 2001                                | 2,300                       | 8,896                         | –                                | (9,079)                                                    | 2,117            |
| Premium on issue of shares,<br>net of expenses     | 58,768                      | –                             | –                                | –                                                          | 58,768           |
| Recognition of unrealised<br>gain on consolidation | –                           | 7,104                         | –                                | –                                                          | 7,104            |
| Net profit for the year                            | –                           | –                             | –                                | 4,006                                                      | 4,006            |
| Transfer of reserve                                | –                           | –                             | 19                               | (19)                                                       | –                |
| <b>At 31 December 2002</b>                         | <b>61,068</b>               | <b>16,000</b>                 | <b>19</b>                        | <b>(5,092)</b>                                             | <b>71,995</b>    |
| Attributable to:                                   |                             |                               |                                  |                                                            |                  |
| The non-profit making<br>subsidiary                | –                           | –                             | –                                | 16                                                         | 16               |
| The Company and<br>other subsidiaries              | 61,068                      | 16,000                        | 19                               | (2,996)                                                    | 74,091           |
| Associates                                         | –                           | –                             | –                                | (2,112)                                                    | (2,112)          |
| At 31 December 2002                                | 61,068                      | 16,000                        | 19                               | (5,092)                                                    | 71,995           |
| Attributable to:                                   |                             |                               |                                  |                                                            |                  |
| The Company and<br>subsidiaries                    | 2,300                       | 8,896                         | –                                | (7,182)                                                    | 4,014            |
| Associates                                         | –                           | –                             | –                                | (1,897)                                                    | (1,897)          |
| At 31 December 2001                                | 2,300                       | 8,896                         | –                                | (9,079)                                                    | 2,117            |

For the year ended 31 December 2002

**23. RESERVES** (cont'd)**The Company**

|                                                | Share<br>premium<br>RMB'000 | Capital<br>reserve<br>RMB'000 | Statutory<br>reserves<br>RMB'000 | Retained<br>profits/<br>(accumulated<br>losses)<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------------------|-----------------------------|-------------------------------|----------------------------------|------------------------------------------------------------|------------------|
| At 31 December 2000                            | –                           | 16,000                        | –                                | (7,744)                                                    | 8,256            |
| Premium on issue of shares                     | 2,300                       | –                             | –                                | –                                                          | 2,300            |
| Net profit for the year                        | –                           | –                             | –                                | 3,146                                                      | 3,146            |
| At 31 December 2001                            | 2,300                       | 16,000                        | –                                | (4,598)                                                    | 13,702           |
| Premium on issue of shares,<br>net of expenses | 58,768                      | –                             | –                                | –                                                          | 58,768           |
| Net profit for the year                        | –                           | –                             | –                                | 3,546                                                      | 3,546            |
| Transfer of reserve                            | –                           | –                             | 19                               | (19)                                                       | –                |
| <b>At 31 December 2002</b>                     | <b>61,068</b>               | <b>16,000</b>                 | <b>19</b>                        | <b>(1,071)</b>                                             | <b>76,016</b>    |

**(a) Capital reserve**

The Company, in the early stage of its incorporation, obtained technology know-how from a promoter of the Company, Shanghai Jiao Tong University, at nil consideration. In February 2000, the Company injected this technology know-how, being the Courts Management Information System into Shanghai Jiaoda Withub Technology Company Limited, at a value of RMB16,000,000 in exchange for 44.44% equity interest in the transferee. On crystallisation of the value of the technology know-how into an investment in an associate, the investment value to the extent of the portion not held by the Group was credited to the capital reserve account.

During the year ended 31 December 2002, the technology know-how was disposed of by the associate. Details of which are set out in note 26(ii)(f). As a result, the portion not recognised previously of RMB7,104,000 was recognised and credited to the capital reserve account.

The capital reserve is non-distributable.

**(b) Basis of appropriations to statutory reserves**

The transfers to statutory common reserve and statutory public welfare fund are based on the net profit under the financial statements prepared using PRC accounting standards.

For the year ended 31 December 2002

**23. RESERVES (cont'd)****(c) Statutory common reserve**

The PRC Company Law requires the appropriation of 10% of the Company's profit after taxation each year to the statutory common reserve until the balance reaches 50% of the registered share capital. In normal circumstances, the statutory common reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of the statutory common reserve into share capital, the remaining amount of such reserve after capitalisation shall not be less than 25% of the registered share capital.

**(d) Statutory public welfare fund**

Pursuant to the PRC Company Law, the Company shall make allocation of 5% to 10% from its profit after taxation to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. Individual employees have only the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of shareholder's equity but is non-distributable other than in liquidation.

**(e) Retained profits/(accumulated losses)**

Except for the surplus retained in Shanghai Withub Information and Professional Training School which is non-distributable, the reserve available for distribution to shareholders is the lower of the aggregate amount of profit after taxation for the year plus/less retained profits/(accumulated losses) brought forward determined under PRC accounting standards and that determined under accounting principles generally accepted in Hong Kong after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

**24. RETIREMENT BENEFITS**

As stipulated by PRC regulations, the Company and its subsidiaries maintain defined contribution retirement plans for all of its employees. The Group contributes to a state sponsored retirement plan at approximately 22.5% of the basic salary of its employees, and has no further obligation for actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the year amounted to approximately RMB607,000 (2001 : RMB624,000).

For the year ended 31 December 2002

**25. LEASE ARRANGEMENTS**

The Group leases office premises in the PRC that requires it to pay management fees under the tenancy agreements.

|                                     | 2002<br>RMB'000 | 2001<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Rentals paid under operating leases |                 |                 |
| Land and buildings                  | 835             | 659             |

As at 31 December 2002, the Group has future minimum lease payments under non-cancellable operating leases as follows:

|                                 | 2002<br>RMB'000 | 2001<br>RMB'000 |
|---------------------------------|-----------------|-----------------|
| Within 1 year                   | 891             | 468             |
| After 1 year but within 5 years | 292             | 351             |
|                                 | <b>1,183</b>    | <b>819</b>      |

**26. RELATED PARTY TRANSACTIONS**

## i) Name and relationship of related parties

|                                                                  |                                                                                 |
|------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Shanghai Jiao Tong University                                    | Shareholder of Shanghai Jiaoda Industrial Investment Management (Group) Limited |
| Shanghai Jiaoda Industrial Investment Management (Group) Limited | Shareholder of the Company                                                      |
| Shanghai Xin Xuhui (Group) Company Limited                       | Shareholder of the Company                                                      |
| Shanghai Jiaoda United Technology Company Limited                | Subsidiary of Shanghai Jiao Tong University                                     |
| Shanghai Jiaoda Withub Technology Street Company Limited         | Ex-associate of the Company                                                     |
| Shanghai Jiaoda Science and Technology Park Company Limited      | Subsidiary of Shanghai Jiao Tong University                                     |
| Shanghai Withub High Technology Industrial Centre                | Subsidiary of Shanghai Jiao Tong University                                     |
| Shanghai Jiaoda Enterprise Management Centre                     | Subsidiary of Shanghai Jiao Tong University                                     |
| Shanghai Qi Pu Technology Company Limited                        | Subsidiary of Shanghai Jiao Tong University                                     |

For the year ended 31 December 2002

**26. RELATED PARTY TRANSACTIONS** (cont'd)

ii) Significant related party transactions during the year are:

|                                                                                         | 2002<br>RMB'000 | 2001<br>RMB'000 |
|-----------------------------------------------------------------------------------------|-----------------|-----------------|
| (a) Project income from related parties                                                 |                 |                 |
| – Shanghai Jiao Tong University                                                         | 437             | 182             |
| – Shanghai Jiaoda Industrial Investment Management (Group) Limited                      | 11              | 450             |
| – Shanghai Withub High Technology Industrial Centre                                     | –               | 2,536           |
| – Shanghai Jiaoda Science and Technology Park Company Limited                           | 1,148           | –               |
| – Shanghai Withub Duogao Information Construction Company Limited                       | 769             | –               |
| – Shanghai Ton Tron Information Technology Company Limited                              | 80              | –               |
| – Shanghai Jiaoda Enterprise Management Centre                                          | –               | 865             |
| – Shanghai Qi Pu Technology Company Limited                                             | 364             | –               |
| (b) Sale of goods to related parties                                                    |                 |                 |
| – Shanghai Jiao Tong University                                                         | 91              | –               |
| – Shanghai Jiaoda Withub Technology Company Limited                                     | 1,169           | 513             |
| (c) Purchase of goods from related parties                                              |                 |                 |
| – Shanghai Jiaoda Withub Technology Company Limited                                     | 2,120           | –               |
| – Shanghai Qi Pu Technology Company Limited                                             | 812             | –               |
| (d) Rental expenses charged by Shanghai Jiaoda Withub Technology Street Company Limited | –               | 347             |
| (e) Bank loan guaranteed by Shanghai Xin Xuhui (Group) Company Limited                  | 3,000           | 3,000           |

For the year ended 31 December 2002

## 26. RELATED PARTY TRANSACTIONS (cont'd)

- (f) In December 2002, one of the associates of the Company, Shanghai Jiaoda Withub Technology Company Limited ("Withub Technology"), disposed of its technology know-how, being the Courts Management Information System injected by the Company upon the establishment of Withub Technology, at a consideration of RMB14,700,000, to a related party, Shanghai Jiaoda United Technology Company Limited (上海交大聯合科技有限公司) in return for 49% equity interest in a company namely, Shanghai Jiaoda Withub Plaza (Shangrao) Company Limited ("Withub Plaza")(上海交大慧谷廣場(上饒)有限公司). Immediately after the above transaction, Withub Plaza entered into a sale and purchase agreement with another related company, Shanghai Jiaoda Science & Technology Park (Shangrao) Company Limited (上海交大科技園(上饒)有限公司) for the acquisition of a land use right at a cash consideration of RMB30,000,000. The registration procedures of the land use right are still in progress.
- (g) Pursuant to a trademark license agreement entered into between the Company and Shanghai Jiaoda Withub Technology Street Company Limited (previously known as Shanghai Jiaoda Withub Technology Business Development Co. Ltd.) on 26 December 2001, the Company was granted the exclusive rights to use the "Withub" logo at nil consideration. The contract was valid up to 20 February 2010 and could be further extended as agreed by both parties.
- iii) The amounts due from related parties are in trade nature; unsecured, interest-free and repayable on normal commercial terms.

## 27. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants as follows:

|                                    |                                      |
|------------------------------------|--------------------------------------|
| SSAP 1 (Revised in December 2001)  | Presentation of financial statements |
| SSAP 11 (Revised in November 2001) | Foreign currency translation         |
| SSAP 15 (Revised in November 2001) | Cash flow statement                  |
| SSAP 34 (Issued in August 2002)    | Employee benefits                    |

The adoption of the above SSAPs has resulted in a change in the presentation of cash flow statement and the inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is necessary.

## 28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2003.

# FOUR-YEAR FINANCIAL SUMMARY

## Results

|                                                | Year ended  |             |             |             |
|------------------------------------------------|-------------|-------------|-------------|-------------|
|                                                | 31 December | 31 December | 31 December | 31 December |
|                                                | 2002        | 2001        | 2000        | 1999        |
|                                                | RMB'000     | RMB'000     | RMB'000     | RMB'000     |
| Turnover                                       | 88,732      | 102,430     | 36,138      | 50,080      |
| Cost of sales                                  | (64,606)    | (82,141)    | (28,597)    | (46,014)    |
| Gross profit                                   | 24,126      | 20,289      | 7,541       | 4,066       |
| Other revenue                                  | 3,791       | 3,274       | 4,732       | 1,090       |
| Distribution costs                             | (3,800)     | (3,780)     | (1,410)     | (1,246)     |
| Research and development costs                 | (5,120)     | (2,042)     | (920)       | (1,183)     |
| Discretionary bonus                            | –           | –           | (4,800)     | –           |
| Administrative expenses                        | (13,178)    | (11,857)    | (9,953)     | (4,460)     |
| Profit/(loss) from operations                  | 5,819       | 5,884       | (4,810)     | (1,733)     |
| Finance costs                                  | (262)       | (2,285)     | (2,789)     | (624)       |
| Gain on disposal of subsidiaries               | –           | 511         | –           | –           |
| Gain on deemed disposal of an associate        | –           | 46          | –           | –           |
| Share of losses from associates                | (154)       | (916)       | (594)       | (360)       |
| Profit/(loss) before taxation                  | 5,403       | 3,240       | (8,193)     | (2,717)     |
| Taxation                                       | (879)       | (1,010)     | (511)       | –           |
| Net profit/(loss) before minority interests    | 4,524       | 2,230       | (8,704)     | (2,717)     |
| Minority interests                             | (518)       | 410         | 1,050       | 308         |
| Net profit/(loss) attributable to shareholders | 4,006       | 2,640       | (7,654)     | (2,409)     |
| Dividends                                      | –           | –           | 1,333       | 500         |
| Earnings/(loss) per share (in RMB)             |             |             |             |             |
| – Basic                                        | 0.0097      | 0.0081      | (0.025)     | (0.016)     |
| – Diluted                                      | N/A         | N/A         | N/A         | N/A         |

The Group has only four years of published results.



## Assets and liabilities

|                                                           | At<br>31 December<br>2002<br>RMB'000 | At<br>31 December<br>2001<br>RMB'000 | At<br>31 December<br>2000<br>RMB'000 | At<br>31 December<br>1999<br>RMB'000 |
|-----------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Non-current assets</b>                                 |                                      |                                      |                                      |                                      |
| Plant and equipment                                       | 2,750                                | 2,524                                | 3,340                                | 1,547                                |
| Interests in associates                                   | 18,201                               | 8,112                                | 10,662                               | 2,360                                |
| Intangible asset                                          | 4,650                                | 4,950                                | 5,250                                | 5,550                                |
| Goodwill                                                  | 126                                  | 172                                  | 218                                  | –                                    |
| Other non-current assets                                  | 150                                  | 1,150                                | 150                                  | 150                                  |
|                                                           | <b>25,877</b>                        | 16,908                               | 19,620                               | 9,607                                |
| <b>Current assets</b>                                     |                                      |                                      |                                      |                                      |
| Inventories                                               | 12,752                               | 5,949                                | 10,430                               | 7,594                                |
| Trade debtors                                             | 22,325                               | 6,050                                | 5,308                                | 3,294                                |
| Deposits, prepayments and other debtors                   | 6,493                                | 6,361                                | 29,614                               | 37,632                               |
| Other investments                                         | 22,403                               | 1,962                                | 222                                  | 3,527                                |
| Amounts due from related parties                          | 1,629                                | 2,144                                | 20,317                               | 793                                  |
| Amounts due from associates                               | 280                                  | 242                                  | –                                    | –                                    |
| Amounts due from minority shareholders<br>of subsidiaries | –                                    | –                                    | 2,633                                | –                                    |
| Cash and bank balances                                    | 58,779                               | 17,821                               | 12,061                               | 23,286                               |
|                                                           | <b>124,661</b>                       | 40,529                               | 80,585                               | 76,126                               |
| <b>Current liabilities</b>                                |                                      |                                      |                                      |                                      |
| Bank loans                                                | 3,000                                | 4,000                                | 43,000                               | 28,000                               |
| Dividends payable                                         | –                                    | –                                    | 533                                  | –                                    |
| Trade creditors                                           | 9,579                                | 3,464                                | 8,442                                | 4,486                                |
| Other creditors and accrued expenses                      | 15,375                               | 10,666                               | 15,568                               | 4,424                                |
| Amounts due to related parties                            | –                                    | –                                    | 2,613                                | 4,513                                |
| Amounts due to associates                                 | –                                    | –                                    | –                                    | 250                                  |
| Income taxes payable                                      | 1,983                                | 1,102                                | 511                                  | –                                    |
|                                                           | <b>29,937</b>                        | 19,232                               | 70,667                               | 41,673                               |
| <b>Net current assets</b>                                 | <b>94,724</b>                        | 21,297                               | 9,918                                | 34,453                               |
| <b>Total assets less liabilities</b>                      | <b>120,601</b>                       | 38,205                               | 29,538                               | 44,060                               |
| <b>Minority interests</b>                                 | <b>(606)</b>                         | (88)                                 | (2,361)                              | (792)                                |
| <b>Net assets</b>                                         | <b>119,995</b>                       | 38,117                               | 27,177                               | 43,268                               |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the 2002 annual general meeting (“AGM”) of Shanghai Jiaoda Withub Information Industrial Company Limited (the “Company”) will be held at Conference room, 5th Floor, Tianping Hotel, 185 Tianping Road, Shanghai, the PRC on Tuesday, 20 May 2003 at 10:00 a.m. for the purpose of considering, and, if thought fit, passing the following ordinary resolutions:–

1. To consider and approve Report of the Directors for the year 2002;
2. To consider and approve Report of the Supervisory Committee for the year 2002;
3. To consider and approve the audited consolidated financial statements for the year ended 31 December 2002;
4. To consider and approve the dividend distribution proposal for the year 2002;
5. To consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year 2002;
6. To consider and approve the proposal of re-appointing Messrs. BDO International and Shanghai Zhonghua Certified Public Accountants Co, Ltd. as the Company’s international and domestic auditors respectively for the year 2003 and authorise the directors of the Company to fix their remuneration;
7. To consider and approve the remuneration proposals for directors and supervisors of the Company for the year 2003 and to authorise the directors of the Company to fix their remuneration; and
8. To transact any other business.

By Order of the Board  
**Xu Xiaoming**  
Chairman

Shanghai, the PRC, 25 March 2003

*Notes:*

1. The register of members of the Company will be closed from 17 April 2003 to 20 May 2003 (both days inclusive), during which no transfer of shares will be effected. The holders of shares whose name appears on the register of members of the Company at 4:00 p.m. on 16 April 2003 will be entitled to attend and vote at the AGM. In order to qualify for attendance at the above meeting, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company’s H share registrar, Computershare Hong Kong Investor Services Limited at 1712-1716, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, by 4:00 p.m. on 16 April 2003.
2. Any holder of H shares and domestic shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the AGM on his behalf. A proxy needs not be a holder of H shares and domestic shares of the Company.
3. In order to be valid, the voting proxy form for the AGM shall be signed by the appointer or his attorney duly authorised in writing. If the appointer is a legal person, then the form shall be signed under a legal person’s seal or signed by its director or an attorney duly authorised in writing. If the form is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the form is signed shall be notarised. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney must be delivered to the Company’s H shares registrar, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.

4. Holders of H shares and domestic shares who intend to attend the AGM should notify in writing of their attendance by sending such to the Company by hand, post or fax on or before 29 April 2003. A failure to return the notice of attendance may result in an adjournment of the AGM, if the number of shares carrying the right to vote represented by the shareholders proposing to attend such meeting by the notice of attendance does not reach more than half of the total number of shares of the Company carrying the right to vote at the meeting.
5. The AGM is expected to take not more than one day. Shareholders who attend shall bear their own traveling and accommodation expenses.
6. Principal place of business in the PRC and the contact details of the Company are as follows:  
7th Floor, Withub Technology Building, 336 Caoxi Bei Road, Shanghai, the PRC Fax No. (86) (021) 64272140.