

Annual Report 2004



SHANGHAI JIAODA WITHUB
INFORMATION INDUSTRIAL COMPANY LIMITED *
(a joint stock company incorporated in the People's Republic of China with limited liability)

*for identification purpose only

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This report, for which the directors (the “Directors”) of Shanghai Jiada 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE PROFILE

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.

* For identification purposes only

CORPORATE INFORMATION

Executive Directors

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

Independent Non-executive Directors

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

Supervisors

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

Company Secretary

Mr. Chong Cha Hwa *ACCA(UK)*

Audit Committee

Prof. Gu Junzhong
Prof. Shao Shihuang
Prof. Yang Junchang

Qualified Accountant

Mr. Chong Cha Hwa *ACCA(UK)*

Compliance Officer

Mr. Hua Xin

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

Authorised Representatives

Prof. Chen Jianbo
Mr. Cheng Min

Principal Bankers

China Construction Bank
– Shanghai Branch No. 2

Shanghai Bank
– Jin Guo Branch

Auditors

BDO McCabe Lo & Company
Certified Public Accountants
8th 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
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
Wanchai
Hong Kong

Stock Code

8205

Company Website

www.withub.com.cn

HIGHLIGHTS

For the year ended 31 December 2004,

- turnover of the Group amounted to approximately RMB132,269,000 (2003: approximately RMB148,821,000) which represented a fall of approximately 11.1%;
- loss attributable to shareholders was approximately RMB1,068,000 (profit attributable to shareholders for the year ended 31 December 2003 was approximately RMB1,810,000); and
- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

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 2004.

RESULTS

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB132,269,000, representing a drop of approximately 11.1% as compared with that of the previous year. The Group recorded a loss of approximately RMB1,068,000 for the year 2004. The profit for the year 2003 was approximately RMB1,810,000. The reason for such decrease was mainly attributable to the keen market competition encountered by the Group during the year under review.

DIVIDEND

For reserving financial resources for future development of the Group, the Board does not recommend the payment of a final dividend for the year ended 31 December 2004.

BUSINESS REVIEW AND OUTLOOK

The year 2004 had been a year of challenge to strive for growth in the severe keen market competition. The business environment of IT industry in the PRC was undergoing a period of intense competition and low return. As the industry has a low entry barrier, the number of competitors increased significantly in the recent years. Due to the excess supply of the services over the demand, the market price decreased significantly as a result. Although a number of major competitors closed down their businesses in the year 2004, it is expected that the market will require some time to adjust to any increase of price of services. I believe that the performance of the Group in the second half of the year 2004 was satisfactory and have confidence that there will be an improvement of results in the year 2005.

During the year under review, the segment of business application solutions recorded a fall in turnover of 17.2% to approximately RMB54,833,000. Despite the keen market competition, the Group has successfully grabbed a new market niche from the systems of judiciary and other government departments in Shanghai for the business solutions development sector as well as application software sector. For the segment of sales of goods, it recorded a decrease of approximately 7.0% to RMB77,881,000.

The Group believes that the capability of attracting the attention of customers in this ever-changing economy has become a prerequisite of the success of the Group in a long run. Thus, the Group will devote more effort to enlarging its product range and explore new markets for magnifying its business growth. We will also endeavour to develop different strategies in order to cope with the ever-changing needs of customers.

Since the entry barriers for the existing businesses of the Group are low, the management of the Group will evaluate the Group's strategies from time to time so as to determine the best development strategy for the Group.

CHAIRMAN'S STATEMENT (cont'd)

In year 2004, the Group has critically considered its development direction with an emphasis on video decoding products for digital broadcasting. Recently, the Group invested approximately USD2,250,000 in Union Genesis Limited ("UGL") that is known to be in possession of sophisticated technology in video chips development. Details of such investment are contained in the announcement of the Company dated 10 March 2005. The Group has confidence that UGL will bring great potential for future growth of the Group.

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 contributions to the continual business growth of the Group. I am also grateful to the management of the Group for their efforts and contributions throughout the year. Looking forward, we will try our best to reward the shareholders with the most fruitful return.

By Order of the Board

Xu Xiaoming

Chairman

Shanghai, the PRC, 22 March 2005

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2004, shareholders' funds of the Group amounted to approximately RMB121,306,000 (2003: RMB122,423,000). Current assets amounted to approximately RMB118,607,000 (2003 (restated): RMB130,077,000), of which approximately RMB45,658,000 (2003: RMB75,166,000) were cash and bank balances. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB32,636,000 (2003: RMB44,235,000), which mainly comprised of other creditors and accrued expenses. The Group did not have any long-term debts.

WORKING CAPITAL RATIO, GEARING RATIO

As at 31 December 2004, the Group had a net cash position and its working capital ratio (current assets to current liabilities) was 3.63 (2003 (restated): 2.94); and gearing ratio (net debt to shareholders' funds) was zero (2003: zero).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no capital commitments and significant investments for the year ended 31 December 2004.

MATERIAL ACQUISITIONS OR DISPOSALS

Save as disclosed herein, the Group had no material acquisitions or disposals for the year ended 31 December 2004.

SEGMENTAL INFORMATION

All of the Group's activities are conducted in the PRC and are divided into two business segments – namely business application solutions and sales of goods. Accordingly, analysis by business segments is provided in note 6 to the financial statements.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group had 259 full time employees (2003: 242), comprising 48 in management, finance and administration (2003: 44), 77 in research and development (2003: 64), 70 in application development and engineering (2003: 66), 15 in production (2003: 16), and 49 in sales and marketing (2003: 52). Also, the Group had 35 school staff (2003: 32).

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.

Remuneration of employees including directors' emoluments and all staff related costs for the year ended 31 December 2004 was RMB13,340,000 (2003: RMB13,640,000).

The Group's remuneration and bonus policies are principally determined with reference to the qualification, experience and performance of individual employee.

CHARGES ON GROUP ASSETS

As at 31 December 2004, the Group had not pledged any assets to its bankers to secure banking facilities granted to the Group (2003: RMB15,052,000).

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the announcement dated 10 March 2005 regarding the Group's investment in Union Genesis Limited ("UGL"), a company which is principally engaged in the design, production and sales of consumer electronics hardware and software, in particular, those related to digital set-top television boxes devices, the Directors plan to invest in the digital video products for the purpose of developing a business with higher potential for growth and with higher entry barrier. Save as disclosed herein, the Directors presently do not have any future plans for material investments or capital assets.

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2004, as the Group's sales and purchases were principally denominated in Renminbi, the Directors considered that the foreign exchange exposure of the Group is minimal.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any significant contingent liabilities.

BUSINESS REVIEW

Business applications solutions segment

In the year under review, the segment of business applications solutions recorded total revenue of approximately RMB54,833,000 (2003: RMB66,235,000) which represented a decrease of approximately 17.2% as compared with the previous year.

Business solutions development

The business solutions development segment recorded a turnover of approximately RMB53,628,000 (2003: RMB63,160,000) during the year under review. The business solutions provided to customers have been extended to the intelligent systems of network security, buildings and community from the conventional computer networks. The Group has successfully explored a large amount of clients from the system of judiciary and other government departments in Shanghai and has provided quality services for those sectors.

Application software

During the year under review, the turnover of application software was approximately RMB43,000 (2003: RMB663,000). The Group has entered into the stage of software development of the industry in 2004. The operations established by the Group included e-Government, e-Parties, community information management, population profile management, welfare institution management and radio unity management, of which management softwares like radio management and e-Parties have been undergoing a successful trial run and officially put under promotion in Shanghai. In addition, the Group endeavors to undertake the research and development of the relevant software products technology based on the actual needs of software development, through which a breakthrough has been achieved on the technologies of the work flow engines and statement engines.

Network and data security products

During the year under review, the turnover of this segment was about RMB717,000 (2003: RMB1,224,000). The progress of marketing and development of the network and data security products has lagged behind schedule owing to the change in market demand. The Directors evaluated the development strategy for such products and decided to focus the resources on the new digital video products.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Sales of goods segment

During the year under review, the sales of goods recorded total revenue of approximately RMB77,881,000 (2003: RMB83,774,000), which was 7.0% lower than that of the last year. The Group has continued to be the agent of Toshiba notebooks and Sharp projectors.

Internal management and marketing

After obtaining the certification of ISO9001-2000 in 2003, the Group has successfully obtained the Level 3 of CMM certification in December 2004. It symbolises that, in terms of the management of the software development business, the Group has turned to a new page. In respect of the marketing, the Group has also established the newsletter “慧谷人” which aims at introducing the businesses of the Group to its clients on a timely basis. Meanwhile, the Group has placed advertisements of the products in various professional publications like “IT時報” and “電腦世界” so as to enhance the awareness of the Group.

BUSINESS OUTLOOK

Business applications solutions

Business solutions development

Further to the expansion on the basis of the existing business, the Group will continue to develop the business solutions market in order to capture more business in the government sector.

Application software

Having eventually penetrated into the software markets in various high-potential industries, the Group will continue to place more efforts on the research and development in the coming years. On the basis of strengthening the market shares, the Group will further enhance the marketing efforts, so as to position our products across the national market. In order to enhance our market shares, the Group will further intensify our marketing strength to increase the reputation of our products across the region.

Network and data security products

In anticipation of the uncertainties existed in respect of the demands for the network and data security products in the market, the Group is determined to make an adjustment to the development strategies for the business. The potential solutions include a co-development on digital video products with other industry players. In March 2005, the Group invested in UGL, a company principally engaged in the design, production and sales of consumer electronics hardware and software, in particular, those related to digital set-top television boxes devices. The Group expects UGL will become a significant partnership on our research and development as to enhance our competitiveness in the network video products market in the future.

Sales and distribution of computer and electrical products

In the coming year, the Group will actively explore new products in order to enhance the utilisation of existing resources of the Group.

Advantages for growth

Looking forward, the Group will further enlarge its product range and explore new markets in order to promote business growth. We will also endeavour to finely adjusting our development path in anticipation of the needs of our customers, aiming at realising a healthy market operation.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Business objectives as at 31 December 2004	Actual progress of completion
Research and product development/enhancement		
<i>Software products</i>	Complete preliminary development of Enterprise Resource Planning Software	Development ceased
<i>Firewall</i>	Commence research and development of firewall application technology	Development ceased
	Continue development of new generation hacking monitor technology	Development ceased
	Continue development of new generation system security technology based on network process (firewall, VPN)	Development ceased
	Complete development of firewall products with anti-virus capability	Development ceased
	Development of firewall products with advanced application function	Development ceased
	<i>Witnet-video products</i>	Complete development of low cost MPEG-IV video products
	Commence development of Witnet-Video based business solutions utilising MPEG-IV	Development direction changed
	Development of Netplayer decoding products utilising MPEG-IV	Development direction changed
<i>Electromagnetic interference device</i>	Continue development of integrated electromagnetic interference device (resolve screening, power and network wiring leakages)	Development ceased

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (cont'd)

	Business objectives as at 31 December 2004	Actual progress of completion
Production		
<i>Electromagnetic interference device</i>	Complete assembly of 100 new generation electromagnetic interference device per month	Completed
Expanding geographical coverage and brand building		
Sales network		
<i>Marketing campaigns & promotions</i>	Continue advertising and exhibition campaign	Despatched press releases to media in the PRC and arranged interview with selected media
	Continue promotion for 1,000 Mbps firewall products	No promotion due to change in marketing plan
	Continue promotion for Witnet-Video products	No promotion due to change in marketing plan
	Continue marketing campaign for Witnet-Video products' application into distant learning education and medical practice	No promotion due to change in marketing plan
	Continue promotion for computer hardware and related products distributed by the Group	Performed promotional activities such as road show and exhibition in shopping malls
<i>Training</i>	Organise and conduct inhouse training to sales and marketing staff	Organised several internal trainings which strengthened the product knowledge and skills of marketing staff

USE OF NET PROCEEDS FROM THE ISSUING OF THE NEW SHARES

	Planned for the period from 1 July to 31 December 2004	Actual fund utilised for the period from 1 July to 31 December 2004	The percentage of net proceeds utilised
	HK\$ million	HK\$ million	
Research and development	2.0	3.7	185.0%
Product enhancement and upgrading	0.5	0	0%
Production facilities	1.5	0.3	20.0%
Sales and marketing	4.9	3.1	63.3%
Loan repayment	0	0	0%
Working capital	0	0	0%
Total	8.9	7.1	79.8%

The actual use of proceeds was lower than the estimation made in the prospectus of the Company dated 25 July 2002. 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 fully spent in 2004. The Group is evaluating its existing strategies for the related business in order to utilise the Group's resources in a more effective manner. Proposals to be confirmed included the provision of agency services to foreign companies for the related products and the joint development programs.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

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

Executive Directors

Professor Xu Xiaoming (許曉鳴), aged 47, 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 President of The University of Shanghai for Science and Technology, director of 上海交大科技園有限公司 (Shanghai Jiada Science & Technology Park Limited), Shanghai JTU Education Development (Group) Co., Ltd., Jiada Nanyang Company Limited, Simplex Computer Limited and 申通有限公司 (Sun Tong 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 Jiada Industrial Group and Jiada Nanyang Company Limited.

Mr. Cheng Min (程敏), aged 54, 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 Jiada 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (cont'd)

DIRECTORS (cont'd)

Executive Directors (cont'd)

Mr. Chen Weifeng (陳偉豐), aged 53, 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 Managing Director of Shanghai Technology Investment Company and Chairman of 上海嘉定高科技園區 (Shanghai Jia Ding Hightech 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 40, 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 General Manager and Party Secretary of 上海張江(集團)有限公司 (Shanghai Zhangjiang (Group) Co. Ltd.) and the Chairman of 川河集團有限公司 (Rivera (Holdings) Limited), 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 58, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (cont'd)

DIRECTORS (cont'd)

Executive Directors (cont'd)

Mr. Hua Xin (華欣), aged 36, 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.

Mr. Wang Yiming (王亦鳴), aged 37, holds a bachelor degree in electronic and a master degree in business administration from Shanghai Jiao Tong University. He has taught in Shanghai Jiao Tong University since 1989. Prior to the appointment as executive director of the Company in September 2004, Mr. Wang was the chief executive officer and an initial management shareholder of the Company and involved in the establishment of the Company in 1998 and has worked for the Company since then. He possesses knowledge and experience in the development and management of network security, electronic communications and modernisation of information infrastructure of government agencies. Mr. Wang is the 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 is responsible for the planning and implementation of overall business operations as well as determining the positioning and direction for technological research and development.

Independent Non-executive Directors

Professor Shao Shihuang (邵世煌), aged 66, 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 (presently known as Southeast University) (南京工學院·現稱東南大學) 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 as an independent non-executive Director by the Company in September 2001.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (cont'd)

DIRECTORS (cont'd)

Independent Non-executive Directors (cont'd)

Professor Gu Junzhong (顧君忠), aged 55, 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 as an independent non-executive Director by the Company in December 2001.

Mr. Herman Shao-ming Hu (胡曉明), *JP, BSc, FCIBSE, FHKIE, MBIM, MIEEE, CEng.*, aged 51, is Chairman of Ryoden Development 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; standing committee member of Chinese People's Political Consultative Conference, Shanghai; member of Sports Commission, Chairman of Major Sports Events Committee; Director of Hong Kong Sports Institute and Hong Kong Employees Retraining Board. Mr. Hu is also a concurrent professor of Xian Jiaotong University and East China University of Science & Technology. Mr. Hu was appointed as an independent non-executive Director by the Company in December 2001.

Professor Yang Junchang (楊君昌), aged 58, is a registered accountant in the PRC (中國註冊會計師) and Professor of finance faculty of Shanghai Finance and Economics University. Professor Yang is also an independent director of Shanghai New World Co., Ltd, a listed company in Shanghai. Professor Yang was appointed as an independent non-executive Director by the Company in September 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (cont'd)

SUPERVISORS

Ms. Yuan Cai Feng (袁彩鳳), aged 59, 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 in September 2000.

Mr. Mo Zhenxi (莫振喜), aged 50, is a Supervisor of the Company responsible for the supervision of the Company's operation and financial activities. Mr. Mo holds an undergraduate 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), a department head in Shanghai Technology Investment Company and administrative officer of Shanghai Technology Investment Company. Mr. Mo was appointed by the Company in April 1998.

Mr. Wang Qiuhua (王秋華), aged 37, 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 in April 1998.

Ms. Qin Yan (秦燕), aged 30, 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 上海華東理工大學 (East China University of Science & Technology) specialized in complex machinery and subsequently obtained a master degree specialised in measurement techniques and instruments. Ms. Qin was appointed by the Company in September 2000.

Mr. Yao Benqiang (姚本強), aged 52, 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 in December 2001.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (cont'd)

SENIOR MANAGEMENT

Mr. Yu Xun (郁迅), aged 31, is a chief information officer 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 appointed by the Company in March 1999.

Mr. Li Yonghua (李勇華), aged 42, is a chief operation officer 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 East China University of Science & Technology 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 appointed by the Company in June 1999.

Mr. Wang Decai (王德才), aged 44, is a 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. Li Jinhua (李金華), aged 47, 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. Chong Cha Hwa (張家華), aged 39, is the company secretary and the qualified accountant of the Company. Mr. Chong is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and a member of the Malaysian Institute of Certified Public Accountants, Malaysia. He has obtained a bachelor degree major in finance and minor in computer from the University of Science, Malaysia. Prior to joining the Company, Mr. Chong has gained more than 13 years of experience in the accounting and finance area servicing private and public listed companies in Hong Kong and the South Asia region. He was appointed by the Group in March 2005.

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 2004.

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 sales and distribution of computer and electrical products.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's sales to the five largest customers accounted for 32.2% of the Group's turnover for the year, of which the largest customer accounted for 18.8% of the Group's turnover for the year.

Purchases from major suppliers accounted for the following percentages:

The largest supplier:	42.2%
Total percentage of the five largest suppliers:	74.0%

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 2004 are set out in the annual report on pages 30 to 64.

DIVIDENDS

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2004.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for each of the five years ended 31 December 2004 is set out on page 65 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 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

REPORT OF THE DIRECTORS (cont'd)

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.

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 2004 to 31 December 2004, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2004, 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 27 to the financial statements.

REPORT OF THE DIRECTORS (cont'd)

RETIREMENT BENEFITS

Details of the retirement benefit schemes of the Group are set out in note 29 to the financial statements.

DIRECTORS AND SUPERVISORS

The directors and supervisors 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)

Mr. Wang Yiming (王亦鳴)

(appointed on 30 September 2004)

Independent Non-executive Directors

Professor Shao Shihuang (邵世煌)

Professor Gu Junzhong (顧君忠)

Mr. Herman Shao-ming Hu (胡曉明)

Professor Yang Junchang (楊君昌)

(appointed on 30 September 2004)

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 Qihua (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, the terms of service of all the Directors and the Supervisors are three years. All Directors and the Supervisors (except the representative of the employees) are subject to re-election at a general meeting upon the expiration of their terms of service.

In accordance with the Articles of Association of the Company, all the Directors except Mr. Wang Yiming and Professor Yang Junchang, and all the Supervisors will retire on 6 July 2005.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Except Mr. Wang Yiming ("Mr. Wang"), 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.

Mr. Wang has not entered into any service contract as director with the Company. Pursuant to the articles of association of the Company, Mr. Wang is appointed as an executive Director for a term of three years commencing from 30 September 2004. Mr. Wang will not receive any remuneration as an executive Director. However, Mr. Wang has entered into a service contract with the Company for the position of chief executive officer of the Company and he is entitled to an annual salary and a discretionary bonus determined by reference to the overall performance of the Group.

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set out on pages 13 to 18 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 9 to the financial statements.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 31 December 2004, the interests and short positions of the Directors, supervisors ("Supervisors") or chief executives of the Company in the shares, debentures or underlying shares of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

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

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION (cont'd)

Notes:

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

Save as disclosed above, as at 31 December 2004, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS (cont'd)

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

A. Substantial shareholders

As at 31 December 2004, the following shareholders had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

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

Notes:

- The letter "L" represents the equity's interest in the shares of the Company.
- There 114,000,000 Domestic Shares are registered and owned by Shanghai Jiaoda Science and Technology Park Limited ("Jiaoda S&T Park"). The major shareholder of Jiaoda S&T Park is Shanghai Jiaoda Industrial Investment Management Group Limited ("Jiaoda Industrial") which owns 55.42% of registered capital in Jiaoda S&T Park. Shareholders of Jiaoda Industrial are Shanghai Jiao Tong University (96.735%) and Shanghai Jiaoda Enterprise Management Centre (3.265%), an entity wholly-owned by Shanghai Jiao Tong University. Both Jiaoda Industrial and Shanghai Jiao Tong University are deemed to be interested to the aggregate of 114,000,000 Domestic Shares held by Jiaoda S&T Park under the SFO.
- These 60,000,000 Domestic Shares are registered and owned by Shanghai Xin Xuhui (Group) Limited, the registered capital of which will be owned as to approximately 74.58% by Xuhui District Industrial Association after the completion of certain capital reorganisation as referred to in the Prospectus. Xuhui District Industrial Association is deemed to be interested in the 60,000,000 Domestic Shares held by Shanghai Xin Xuhui (Group) Limited under the SFO.

REPORT OF THE DIRECTORS (cont'd)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES IN THE COMPANY (cont'd)

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

As at 31 December 2004, save for the persons/entities disclosed in sub-section A above, the following person/entity had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Capacity	Number of shares (Note)	Percentage of entity's interest (Approximate)
Chen Jianbo	Beneficial owner	24,300,000 domestic shares (L)	5.06%

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

Save as disclosed above, as at 31 December 2004, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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

As updated and notified by the Company's sponsor, Guotai Junan Capital Limited ("Guotai Junan"), neither Guotai Junan nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2004 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

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

Since the requirement of appointing a continuing sponsor of the Company has ended on 31 December 2004, the Company currently has no intention to retain a continuing sponsor following the end of the aforementioned agreement between the Company and Guotai Junan.

REPORT OF THE DIRECTORS (cont'd)

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of connected and related party transactions are set out in note 31 to the financial statements.

POST BALANCE SHEET EVENT

Details of events subsequent to the balance sheet date is set out in note 32 to the financial statements.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

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 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprises the three independent non-executive Directors, Professor Yang Junchang, Professor Shao Shihuang and Professor Gu Junzhong.

The Company's financial statements for the year ended 31 December 2004 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 2004. 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 four formal meetings.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written confirmation from all independent non-executive Directors in respect of their independence during the year and all independent non-executive Directors are still being considered to be independent.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo & Company and BDO Shanghai Zhonghua Certified Public Accountants as international and domestic auditors of the Company respectively.

On behalf of the Board

Xu Xiaoming
Chairman

Shanghai, the PRC, 22 March 2005

REPORT OF THE SUPERVISORY COMMITTEE

To: All Shareholders

Shanghai Jiada Withub Information Industrial Company Limited has complied with the Company Law of the PRC during the year ended 31 December 2004, 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. 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 McCabe Lo & Company, 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 in 2004 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, 22 March 2005

AUDITOR'S REPORT



BDO McCabe Lo & Company

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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 30 to 64 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 affairs of the Company and of the Group as at 31 December 2004 and of the Group's loss 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 McCabe Lo & Company

Certified Public Accountants

Hong Kong, 22 March 2005

* For identification purpose only

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Turnover	5	132,269	148,821
Cost of sales		(111,887)	(127,223)
Gross profit		20,382	21,598
Other revenue	7	7,701	10,757
Distribution expenses		(4,932)	(4,040)
Research and development expenses		(3,750)	(1,974)
Administration expenses		(18,324)	(24,018)
Profit from operations	8	1,077	2,323
Finance costs	10	(441)	(181)
Share of profits less losses of associates		(1,484)	(851)
(Loss)/profit before taxation		(848)	1,291
Taxation	11	(339)	142
(Loss)/profit after taxation		(1,187)	1,433
Minority interests		119	377
(Loss)/profit attributable to shareholders	12	(1,068)	1,810
Dividends		–	–
(Loss)/earnings per share (in RMB)	13		
– Basic		(0.0022)	0.0038
– Diluted		N/A	N/A

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	2004 RMB'000	2003 (restated) RMB'000
Non-current assets			
Plant and equipment	14	2,971	2,898
Interests in associates	16	26,256	27,176
Investment securities	21	1,500	1,500
Intangible asset	17	4,050	4,350
Goodwill	18	34	80
Other non-current asset	19	150	150
Deferred tax assets	25	484	656
		35,445	36,810
Current assets			
Inventories	20	9,842	11,793
Trade debtors	22	32,998	29,480
Deposits, prepayments and other debtors		27,852	13,018
Amounts due from related parties	31	1,016	390
Amounts due from associates	31	1,241	230
Cash and bank balances		45,658	75,166
		118,607	130,077
Current liabilities			
Bank loan		–	3,000
Trade creditors and bills payable	24	6,901	18,385
Other creditors and accrued expenses		24,384	20,919
Amount due to an associate	31	68	795
Income taxes payable		1,283	1,136
		32,636	44,235
Net current assets		85,971	85,842
Total assets less liabilities		121,416	122,652
Minority interests		(110)	(229)
Net assets		121,306	122,423
Capital and reserves			
Share capital	26	48,000	48,000
Reserves	27	73,306	74,423
		121,306	122,423

On behalf of the Board

Xu Xiaoming
Director

Wang Yiming
Director

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

BALANCE SHEET

As at 31 December 2004

	Notes	2004 RMB'000	2003 (restated) RMB'000
Non-current assets			
Plant and equipment	14	1,833	2,179
Investments in subsidiaries	15	16,269	5,500
Investment securities	21	1,500	1,500
Interests in associates	16	30,035	30,313
Intangible asset	17	4,050	4,350
Other non-current asset	19	150	150
Deferred tax assets	25	484	656
		54,321	44,648
Current assets			
Inventories	20	8,027	8,497
Trade debtors	22	31,236	27,166
Deposits, prepayments and other debtors		24,424	8,890
Amounts due from subsidiaries	23	3,600	600
Amount due from a related party	31	16	390
Amounts due from associates	31	1,241	230
Cash and bank balances		34,302	71,227
		102,846	117,000
Current liabilities			
Trade creditors and bills payable	24	5,562	17,443
Other creditors and accrued expenses		20,565	11,283
Amounts due to subsidiaries	23	2,122	1,676
Amount due to an associate	31	68	795
Income taxes payable		1,283	1,136
		29,600	32,333
Net current assets		73,246	84,667
Net assets		127,567	129,315
Capital and reserves			
Share capital	26	48,000	48,000
Reserves	27	79,567	81,315
		127,567	129,315

SHANGHAI JIADA WITHUB INFORMATION INDUSTRIAL COMPANY LIMITED

On behalf of the Board

Xu Xiaoming
Director

Wang Yiming
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

2004	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Foreign Exchange reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 31 December 2003	48,000	61,068	16,000	223	–	(2,868)	122,423
Net loss for the year	–	–	–	–	–	(1,068)	(1,068)
Translation of financial statements of an overseas subsidiary	–	–	–	–	(49)	–	(49)
At 31 December 2004	48,000	61,068	16,000	223	(49)	(3,936)	121,306
2003							
At 31 December 2002							
– as previously reported	48,000	61,068	16,000	19	–	(5,092)	119,995
– prior period adjustment arising from adoption of new accounting standard for income taxes	–	–	–	–	–	618	618
– as restated	48,000	61,068	16,000	19	–	(4,474)	120,613
Net profit for the year	–	–	–	–	–	1,810	1,810
Appropriations	–	–	–	204	–	(204)	–
At 31 December 2003	48,000	61,068	16,000	223	–	(2,868)	122,423

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

Note	2004 RMB'000	2003 RMB'000
Cash flow from operating activities		
(Loss)/profit before tax	(848)	1,291
Adjustments for:		
Depreciation	1,013	1,006
Interest income	(723)	(1,055)
Interest expenses	441	181
Loss/(gain) on disposal of plant and equipment	46	(4)
Amortisation of goodwill	58	46
Amortisation of intangible asset	300	300
Dividends from investment securities	(39)	(29)
Net realised loss on disposal of other investments	–	1,317
Share of profits less losses from associates	1,484	851
Operating profit before working capital changes	1,732	3,904
Decrease in inventories	1,951	959
Increase in trade debtors	(3,518)	(7,155)
Increase in deposits, prepayments and other debtors	(14,834)	(6,525)
(Increase)/decrease in amounts due from related parties	(626)	1,239
(Increase)/decrease in amounts due from associates	(1,011)	50
(Decrease)/increase in trade creditors and bills payable	(11,484)	8,806
Increase in other creditors and accrued expenses	3,465	5,544
(Decrease)/increase in amount due to an associate	(727)	795
Cash (used in)/generated from operations	(25,052)	7,617
Interest received	723	1,055
Income taxes paid	–	(717)
Net cash (used in)/generated from operating activities	(24,329)	7,955

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

CONSOLIDATED CASH FLOW STATEMENT (cont'd)

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Cash flows from investing activities			
Payment for purchase of plant and equipment		(1,169)	(1,370)
Proceeds from sale of plant and equipment		37	220
Payment for investment in an associate		(721)	(10,000)
Proceeds from sale of other investments		–	19,586
Decrease/(increase) in pledged time deposit		15,052	(15,052)
Dividends received from associates		125	148
Dividends received from investment securities		39	29
Net cash from/(used in) investing activities		13,363	(6,439)
Cash flows from financing activities			
Interest paid		(441)	(181)
Decrease in bank loan		(3,000)	–
Net cash used in financing activities		(3,441)	(181)
Net (decrease)/increase in cash and cash equivalents		(14,407)	1,335
Effect of foreign exchange rate changes		(49)	–
Cash and cash equivalents at beginning of year		60,114	58,779
Cash and cash equivalents at end of year	28	45,658	60,114

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. GENERAL

Shanghai Jiada 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 (the "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 sales and distribution of computer and electrical 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. RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public 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. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(a) Basis of consolidation (cont'd)

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.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any. All significant intercompany transactions and balances among group companies are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) 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 identifiable assets of subsidiaries/associates at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and any impairment losses. Goodwill is amortised on a straight-line basis to the income statement over its estimated useful economic life which is estimated not to exceed 20 years.

On disposal of an investment in 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.

(c) Associates

An associate is an enterprise, 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 investee.

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. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) 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 goods 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.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

Dividend income is recognised when the right to receive dividend is established.

(e) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are nonassessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Employee benefits

(i) *Defined contribution retirement plan*

The Group maintains defined contribution retirement plans, which are State-managed 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) *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.

(iii) *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.

(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.

(h) 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(i) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment losses, if any. 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.

When an asset is sold or retired, its cost, accumulated depreciation and impairment losses are eliminated and any gain or loss resulting from its disposal is included 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%

(j) 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 and has the ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of a discount or premium arising from the acquisition of a held-to-maturity 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.

Securities which are held for an identified long-term purpose, are classified as investment securities. They are measured at subsequent reporting dates at cost, less any impairment loss that are other than temporary.

Securities not classified as investment securities or held-to-maturity securities are classified as other investments. Other investments are measured at fair value at subsequent reporting dates, with unrealised gains and losses included in the income statement for the period.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(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.

The income statements and balance sheets of overseas subsidiary are translated at the average rates for the year and the rates ruling at the year end date respectively. Exchange differences arising on translation are dealt with in the foreign exchange reserve.

(m) Impairment

The carrying amounts of the Group's tangible and intangible assets are reviewed annually at each balance sheet date to determine whether they have been impaired during the year. Where an asset has been impaired, the recoverable amount of the asset (or cash generating unit where applicable) is determined. Where the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. The resultant impairment loss is recognised as an expense in the income statement unless the asset is carried at revalued amounts and the revaluation surplus is recognised in equity in which case the impairment is recognised directly against the revaluation surplus to the extent the impairment loss does not exceed the surplus.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the reversed estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(n) 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 expensed on a straight-line basis over the accounting periods covered by the lease terms.

(o) 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.

(p) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising 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, the existence of which 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.

(r) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intercompany balances and intercompany transactions are eliminated as part of the consolidation process, except to the extent that such intercompany balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

5. TURNOVER

	2004 RMB'000	2003 RMB'000
Turnover represents revenue from		
Business solutions development	53,628	63,160
Application software	43	663
Network and data security products	717	1,224
Sales and distribution of computer and electrical products	77,881	83,774
	132,269	148,821

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

6. SEGMENT INFORMATION

Business segments

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

Business application solutions:	Develop and provide business application solutions services which include business solutions, application software, network and data security products.
Sales of goods:	Sales and distribution of computer and electrical products and accessories.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

6. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

Segment information about these businesses is presented below.

	Business application solutions		Sales of goods		Consolidated	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue						
Turnover from external customers	54,388	65,047	77,881	83,774	132,269	148,821
Other revenue	445	1,188	-	-	445	1,188
Total	54,833	66,235	77,881	83,774	132,714	150,009
Unallocated other revenue					7,256	9,569
					139,970	159,578
Results						
Segment results	7,121	8,080	293	520	7,414	8,600
Unallocated operating income and expenses					(6,337)	(6,277)
Profit from operations					1,077	2,323
Finance costs					(441)	(181)
Share of profits less losses of associates	(1,484)	(851)	-	-	(1,484)	(851)
Taxation					(339)	142
Minority interests					119	377
Profit attributable to shareholders					(1,068)	1,810
Assets						
Segment assets	37,092	38,103	11,612	16,486	48,704	54,589
Interests in associates	26,256	27,176	-	-	26,256	27,176
Unallocated assets					79,092	85,122
Total assets					154,052	166,887
Liabilities						
Segment liabilities	18,469	16,741	6,971	16,058	25,440	32,799
Unallocated liabilities					7,196	11,436
Total liabilities					32,636	44,235
Other segment information						
Capital expenditure incurred during the year	1,166	566	3	42		
Depreciation	995	624	18	30		
(Decrease)/increase in provision for bad and doubtful debts	(12)	30	-	-		
Provision for obsolete and slow-moving inventories	600	550	-	-		

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

6. SEGMENT INFORMATION (cont'd)

Geographical segment

The Group's turnover and results are generated in the PRC. Accordingly, no geographical segment information has been presented.

7. OTHER REVENUE

	2004 RMB'000	2003 RMB'000
Interest income	723	1,055
Dividends from investment securities	39	29
Government grants (note)	845	1,399
Tuition fees	4,673	6,972
Rental income	1,124	–
Sundry	297	1,302
	7,701	10,757

Note: The Group obtained government grants in relation to the development of the Group's products.

8. PROFIT FROM OPERATIONS

Profit from operations has been arrived after charging/(crediting):

	2004 RMB'000	2003 RMB'000
Auditors' remuneration	629	612
Amortisation of goodwill	58	46
Amortisation of intangible asset	300	300
Cost of inventories recognised as an expense	111,887	127,223
Depreciation	1,013	1,006
Loss/(gain) on disposal of plant and equipment	46	(4)
Net realised loss on disposal of other investments	–	1,317
(Decrease)/increase in provision for bad and doubtful debts	(12)	230
Provision for obsolete and slow-moving inventories	600	550
Contributions to retirement benefit scheme (note 29)	1,225	912
Staff costs (including directors' emoluments and all staff related costs)	13,340	13,640

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

9. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments:

	2004 RMB'000	2003 RMB'000
Details of directors' emoluments are as follows:		
Fees	-	-
Salaries and other benefits	250	-
Discretionary bonus	-	60
Contributions to retirement benefit scheme	-	-
	250	60

Details of emoluments paid to individual executive directors and independent non-executive directors during the year are as follows:

	2004 RMB'000	2003 RMB'000
Executive directors		
Wang Yiming		
Fees	-	-
Salaries and other benefits	250	-
Discretionary bonus	-	-
Contributions to retirement benefit scheme	-	-
	250	-
Independent non-executive directors		
Chen Jianbo		
Fees	-	-
Salaries and other benefits	-	60
Discretionary bonus	-	-
Contributions to retirement benefit scheme	-	-
	-	60

None of the independent non-executive directors received any emoluments for the years ended 31 December 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

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

(b) Supervisors' emoluments:

	2004 RMB'000	2003 RMB'000
Details of supervisors' emoluments are as follows:		
As supervisors	–	–
As employees		
– Salaries and other benefits	72	64
– Discretionary bonus	–	20
– Contributions to retirement benefit scheme	19	6
Salaries and other benefits	91	90

Details of emoluments paid to individual supervisor during the year are as follows:

	2004 RMB'000	2003 RMB'000
Qin Yan		
As supervisor	–	–
As employee		
– Salaries and other benefits	72	64
– Discretionary bonus	–	20
– Contributions to retirement benefit scheme	19	6
Salaries and other benefits	91	90

(c) Five highest paid individuals:

The five highest paid employees of the Group during the year included one (2003: Nil) director, details of whose emoluments are also set out in the directors' emoluments above. For the year ended 31 December 2004, details of the remuneration of the five highest paid individuals are as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	666	623
Discretionary bonus	–	30
Contributions to retirement benefit scheme	87	23
	753	676

The emoluments of each of the highest paid individuals for the years ended 31 December 2004 and 2003 fell within the band of nil to RMB1,060,000 (equivalent to Hong Kong dollars 1,000,000).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

10. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank loan and other borrowings wholly repayable within 5 years	441	181

11. TAXATION

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

	2004 RMB'000	2003 RMB'000
Current tax – PRC		
– tax for the year	(147)	(700)
– over-provision in respect of prior years	–	830
Deferred tax	(147)	130
Share of taxation attributable to associates	(20)	(26)
Total taxation for the year	(339)	142

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

No provision for Hong Kong Profits Tax has been made as companies within the Group did not generate any assessable profits in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

11. TAXATION (cont'd)

- (b) Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

	2004		2003	
	RMB'000	%	RMB'000	%
(Loss)/profit before tax	(848)		1,291	
Tax at the statutory tax rate of 33%	(280)	(33.0)	426	33.0
Tax effect of tax benefits of being a HNTE	(125)	(14.8)	(417)	(32.3)
Tax effect of non-deductible expenses	49	5.8	312	24.2
Tax effect of non-taxable revenue	(58)	(6.8)	(291)	(22.6)
Tax effect of unused tax losses not recognised	197	23.3	352	27.3
Tax effect of non-deductible expenses, non-taxable revenue and/or unused tax losses not recognised for associates, net	552	65.1	306	23.7
Effect of different tax rates of a subsidiary operating in other jurisdiction	4	0.4	–	–
Over-provision in prior years	–	–	(830)	(64.3)
Actual tax expense and effective tax rate for the year	339	40.0	(142)	(11.0)

SHANGHAI JIADA WITHUB INFORMATION INDUSTRIAL COMPANY LIMITED

12. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a net loss of RMB1,748,000 (2003: net profit of RMB4,681,000) which has been dealt with in the financial statements of the Company.

13. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share for the year is based on the loss attributable to shareholders of RMB1,068,000 (2003: profit of RMB1,810,000) and on the weighted average number of 480,000,000 shares in issue for the years ended 31 December 2004 and 2003.

Diluted (loss)/earnings per share for the years ended 31 December 2004 and 2003 have not been calculated as there were no dilutive potential shares during the years ended 31 December 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

14. PLANT AND EQUIPMENT

The Group

	Leasehold improvements RMB'000	Furniture, and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
Balance at 1 January 2004	676	3,919	1,251	5,846
Additions	–	514	655	1,169
Disposals	–	(55)	(378)	(433)
Balance at 31 December 2004	676	4,378	1,528	6,582
Accumulated depreciation				
Balance at 1 January 2004	90	1,995	863	2,948
Charge for the year	270	642	101	1,013
Eliminated on disposals	–	(31)	(319)	(350)
Balance at 31 December 2004	360	2,606	645	3,611
Net book value				
At 31 December 2004	316	1,772	883	2,971
At 31 December 2003	586	1,924	388	2,898
The Company				
Cost				
Balance at 1 January 2004	676	2,789	1,112	4,577
Additions	–	297	165	462
Disposals	–	–	(240)	(240)
Balance at 31 December 2004	676	3,086	1,037	4,799
Accumulated depreciation				
Balance at 1 January 2004	90	1,535	773	2,398
Charge for the year	270	435	93	798
Eliminated on disposals	–	–	(230)	(230)
Balance at 31 December 2004	360	1,970	636	2,966
Net book value				
At 31 December 2004	316	1,116	401	1,833
At 31 December 2003	586	1,254	339	2,179

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

15. INVESTMENTS IN SUBSIDIARIES

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	18,269	5,500
Less: impairment loss	(2,000)	—
	16,269	5,500

Particulars of subsidiaries are as follows:

Name of company	Place of incorporation and operation	Registered/ issued capital	Percentage of equity interest directly attributable to the Company		Principal activities
			2004	2003	
Shanghai Jiaoda Withub Software Company Limited*	The PRC	RMB5,000,000	82	82	Development and sale of business solutions and software
Shanghai Huikang Information Technology Company Limited*	The PRC	RMB1,000,000	40 (note i)	40	Development and sale of data security products
Shanghai Withub Information and Professional Training School**	The PRC	RMB1,000,000	100 (note ii)	100	Provision of tuition and training services
Jiaoda Withub (Hong Kong) Limited***	Hong Kong	HKD12,000,000	100	N/A	Not yet commenced business

Notes:

- (i) Through the endorsement of voting rights to the Company by two minority shareholders, the Company is able to obtain control over more than 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) Shanghai Withub Information Professional Training School (the "School") is a non-profit making entity with 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 training standard and cannot be used for any other purposes or be distributed to its organiser.

* private limited liability company (domestic joint equity)

** private unincorporated entity

*** private limited liability company

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

The condensed balance sheets of the School, being one of the consolidated subsidiaries, at 31 December 2004 and 2003 are as follows:

	2004 RMB'000	2003 RMB'000
Bank balances	261	2,743
Current assets other than bank balances	1,264	150
	1,525	2,893
Current liabilities	(467)	(1,839)
Net assets	1,058	1,054

16. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	–	–	31,035	30,313
Share of net assets	26,181	27,176	–	–
Goodwill	75	–	–	–
Less: impairment loss	–	–	(1,000)	–
	26,256	27,176	30,035	30,313

Particulars of principal associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest			Principal activities
			Group's effective interest	attributable to the Company	attributable to an associate	
Shanghai Withub Duogao Information Construction Company Limited	Private limited liability company (joint equity)	The PRC	34.61%	34.61%	–	Design and installation of intelligent household systems
Shanghai Jiaoda Withub Technology Company Limited	Private limited liability company (joint equity)	The PRC	44.44%	44.44%	–	Development and sale of business solutions
Shanghai Ton Tron Information Technology Company Limited	Private limited liability company (joint equity)	The PRC	32%	32%	–	Development and sale of business solutions and computer accessories

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

16. INTERESTS IN ASSOCIATES (cont'd)

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest			Principal activities
			Group's effective interest	attributable to the Company	attributable to an associate	
Shanghai Jiaoda Science & Technology Park Information Technology (Shangrao) Company Limited	Private limited liability company (joint equity)	The PRC	40%	40%	–	Research and development of high technology products and real estate management
Shanghai Jiaoda Withub Tong Yong Technology Company Limited	Private limited liability company (joint equity)	The PRC	31.11%	–	70%	Development and sale of business solutions

17. INTANGIBLE ASSET

The Group and the Company

	RMB'000
Cost at 1 January 2004 and 31 December 2004	6,000
Accumulated amortisation	
Balance at 1 January 2004	1,650
Amortisation for the year	300
Balance at 31 December 2004	1,950
Net book value	
At 31 December 2004	4,050
At 31 December 2003	4,350

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 and is renewable for a further term of 10 years at the discretion of the Company.

Amortisation is charged to the income statement on a systematic basis over 20 years.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

18. GOODWILL

	RMB'000
Cost at 1 January 2004 and 31 December 2004	230
Accumulated amortisation	
Balance at 1 January 2004	150
Amortisation for the year	46
Balance at 31 December 2004	196
Net book value	
At 31 December 2004	34
At 31 December 2003	80

19. OTHER NON-CURRENT ASSET

At balance sheet date, other non-current asset represents a membership fee of RMB150,000 paid to the Shanghai Technology Stock Exchange for the right to trade in technology know-how.

20. INVENTORIES

The Group

	2004 RMB'000	2003 RMB'000
Raw materials	896	2,190
Work in progress	4,293	2,037
Finished goods	1,029	936
Merchandise for resale	5,469	7,875
	11,687	13,038
Provision for obsolete and slow-moving items	(1,845)	(1,245)
	9,842	11,793

Included in the balances of finished goods and merchandise for resale are amounts with an aggregate total of RMB240,000 (2003: RMB468,000) carried at net realisable values.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

20. INVENTORIES (cont'd)

The Company

	2004 RMB'000	2003 RMB'000
Raw materials	612	695
Work in progress	3,200	573
Finished goods	599	598
Merchandise for resale	5,461	7,876
	9,872	9,742
Provision for obsolete and slow-moving items	(1,845)	(1,245)
	8,027	8,497

Included in the balances of finished goods and merchandise for resale are amounts with an aggregate total of RMB240,000 (2003: RMB468,000) carried at net realisable values.

21. INVESTMENT SECURITIES

The Group and the Company

	2004 RMB'000	2003 RMB'000
Equity interest in a PRC private limited liability company	1,500	1,500

22. TRADE DEBTORS

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade debtors	33,474	29,968	31,674	27,611
Provision for doubtful debts	(476)	(488)	(438)	(445)
	32,998	29,480	31,236	27,166

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

22. TRADE DEBTORS (cont'd)

The credit terms of the Group and the Company are 30 to 90 days. The aging analyses of trade debtors are as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Aged:				
0 to 90 days	24,848	21,867	23,681	20,338
91 to 180 days	1,003	1,907	1,003	1,572
181 to 365 days	3,844	571	3,657	188
Exceeding 365 days	3,779	5,623	3,333	5,513
	33,474	29,968	31,674	27,611
Provision for doubtful debts	(476)	(488)	(438)	(445)
	32,998	29,480	31,236	27,166

23. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

24. TRADE CREDITORS AND BILLS PAYABLE

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Aged:				
0 to 90 days	4,791	16,146	4,671	15,615
91 to 180 days	740	305	12	32
181 to 365 days	476	132	343	22
Exceeding 365 days	894	1,802	536	1,774
	6,901	18,385	5,562	17,443

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

25. DEFERRED TAXATION

The Group and the Company

The components of deferred tax assets recognised in the Group's and the Company's balance sheets and the movements during the year are as follows:

Deferred tax arising from:	Provision for obsolete and slow-moving inventories RMB'000	Provision for doubtful debts RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2003	104	282	232	618
Credited/(charged) to income statement	83	10	(55)	38
At 31 December 2003	187	292	177	656
Credited/(charged) to income statement	231	(141)	(262)	(172)
At 31 December 2004	418	151	(85)	484

The Group has not recognised deferred tax assets in respect of unexpired tax losses carried forward by the subsidiaries of RMB4,222,000 due to unpredictability of future profit streams (2003: RMB3,912,000).

26. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
<i>Registered, issued and fully paid:</i> 480,000,000 shares of RMB0.1 each	48,000	48,000

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

27. RESERVES

The Group

2004	Share premium RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserves RMB'000 (note (b))	Foreign exchange reserve RMB'000	Retained profits/ (accumulated losses) RMB'000 (note (c))	Total RMB'000
At 31 December 2003	61,068	16,000	223	–	(2,868)	74,423
Net loss for the year	–	–	–	–	(1,068)	(1,068)
Translation of financial statements of an overseas subsidiary	–	–	–	(49)	–	(49)
At 31 December 2004	61,068	16,000	223	(49)	(3,936)	73,306
Attributable to:						
The non-profit making subsidiary	–	–	–	–	58	58
The Company and other subsidiaries	61,068	16,000	223	(49)	772	78,014
Associates	–	–	–	–	(4,766)	(4,766)
At 31 December 2004	61,068	16,000	223	(49)	(3,936)	73,306
2003	Share premium RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserves RMB'000 (note (b))		Retained profits/ (accumulated losses) RMB'000 (note (c))	Total RMB'000
At 31 December 2002						
– as previously reported	61,068	16,000	19		(5,092)	71,995
– prior period adjustment arising from adoption of new accounting standard for income taxes	–	–	–		618	618
– as restated	61,068	16,000	19		(4,474)	72,613
Net profit for the year	–	–	–		1,810	1,810
Appropriations (note (b))	–	–	204		(204)	–
At 31 December 2003	61,068	16,000	223		(2,868)	74,423
Attributable to:						
The non-profit making subsidiary	–	–	–		54	54
The Company and other subsidiaries	61,068	16,000	223		215	77,506
Associates	–	–	–		(3,137)	(3,137)
At 31 December 2003	61,068	16,000	223		(2,868)	74,423

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

27. RESERVES (cont'd)

The Company

2004	Share premium RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserves RMB'000 (note (b))	Retained profits/ (accumulated losses) RMB'000 (note (c))	Total RMB'000
At 31 December 2003	61,068	16,000	223	4,024	81,315
Net loss for the year	–	–	–	(1,748)	(1,748)
At 31 December 2004	61,068	16,000	223	2,276	79,567
2003	Share premium RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserves RMB'000 (note (b))	Retained profits/ (accumulated losses) RMB'000 (note (c))	Total RMB'000
At 31 December 2002					
– as previously reported	61,068	16,000	19	(1,071)	76,016
– prior period adjustment arising from adoption of new accounting standard for income taxes	–	–	–	618	618
– as restated	61,068	16,000	19	(453)	76,634
Net profit for the year	–	–	–	4,681	4,681
Appropriations (note (b))	–	–	204	(204)	–
At 31 December 2003	61,068	16,000	223	4,024	81,315

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

27. RESERVES (cont'd)

(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 ("Withub Technology"), at a value of RMB16,000,000 in exchange for 44.44% equity interest in Withub Technology. The value of the contributed technology know-how by Shanghai Jiao Tong University was booked in the capital reserve account of the Company.

The capital reserve is non-distributable.

(b) Basis of appropriations to statutory reserves

Statutory reserves comprise statutory common reserve and statutory public welfare fund.

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.

(i) 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.

(ii) 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.

(c) Retained profits/(accumulated losses)

Except for the profits 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

28. CASH AND CASH EQUIVALENTS

	The Group	
	2004 RMB'000	2003 RMB'000
Cash and bank balances	45,658	75,166
Less: Pledged time deposit	–	(15,052)
Cash and cash equivalents	45,658	60,114

29. 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-managed 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-managed retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the year amounted to approximately RMB1,225,000 (2003: RMB912,000).

30. LEASE ARRANGEMENTS

The Group leases a number of office premises in the PRC under operating leases. A lease relating to premises occupied by a subsidiary of the Company was entered into between a related party, Shanghai Jiao Tong University Education (Group) Company Limited and the landlord. Rental paid during the year to the landlord by this subsidiary according to the lease amounting to RMB850,000.

	2004 RMB'000	2003 RMB'000
Rentals paid under operating leases		
Land and buildings	2,632	1,849

As at 31 December 2004, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 1 year	464	1,209	410	269
After 1 year but within 5 years	–	3,549	–	–
After 5 years	–	450	–	–
	464	5,208	410	269

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

31. CONNECTED AND RELATED PARTY TRANSACTIONS

(i) Name and relationship of related parties

Shanghai Jiao Tong University	Shareholder of Shanghai Jiaoda Science and Technology Park Company Limited
Shanghai Xin Xuhui (Group) Company Limited	Shareholder of the Company
Shanghai Jiaoda Science and Technology Park Company Limited	Shareholder of the Company
Shanghai Withub High Technology Industrial Centre	Subsidiary of Shanghai Jiao Tong University
Shanghai Qi Pu Technology Company Limited	Subsidiary of Shanghai Jiao Tong University
Shanghai Jiaoda Industrial Investment Company Limited	Subsidiary of Shanghai Jiao Tong University
Shanghai Jiaoda Onlly Technology Company Limited	Subsidiary of Shanghai Jiao Tong University
Shanghai Jiao Tong University Education (Group) Company Limited	Subsidiary of Shanghai Jiao Tong University

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

31. CONNECTED AND RELATED PARTY TRANSACTIONS (cont'd)

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

	2004 RMB'000	2003 RMB'000
(a) Project income from related parties		
– Shanghai Withub High Technology Industrial Centre	–	60*
– Shanghai Ton Tron Information Technology Company Limited	–	230
– Shanghai Jiaoda Industrial Investment Company Limited	–	54*
– Shanghai Jiaoda Only Technology Company Limited	–	105*
(b) Sale of goods to related parties		
– Shanghai Jiao Tong University	–	47*
– Shanghai Ton Tron Information Technology Company Limited	–	160
(c) Consultancy fee charged by Shanghai Jiao Tong University Education (Group) Company Limited	300*	650*
(d) Bank loan guaranteed by Shanghai Xin Xuhui (Group) Company Limited	–	3,000*

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

* These transactions also constitute connected transactions under GEM Listing Rules.

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

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date in March 2005, one of the subsidiaries has entered into a subscription agreement with independent third parties to subscribe for 45% of the issued share capital of UGL at a consideration of USD2,250,000.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2005.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	2004 RMB'000	Year ended 31 December			
		2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover	132,269	148,821	88,732	102,430	36,138
(Loss)/profit before taxation	(848)	1,291	5,464	3,240	(8,193)
Taxation	(339)	142	(783)	(1,010)	(511)
Net (loss)/profit before minority interests	(1,187)	1,433	4,681	2,230	(8,704)
Minority interests	119	377	(518)	410	1,050
Net (loss)/profit for the year	(1,068)	1,810	4,163	2,640	(7,654)
Dividends	–	–	–	–	1,333
(Loss)/earnings per share (in RMB)					
– Basic	(0.0022)	0.0038	0.0101	0.0081	(0.025)
– Diluted	N/A	N/A	N/A	N/A	N/A

ASSETS AND LIABILITIES

	2004 RMB'000	At 31 December			
		2003 (restated) RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Non-current assets	35,445	36,810	26,495	16,908	19,620
Current assets	118,607	130,077	124,661	40,529	80,585
Total assets	154,052	166,887	151,156	57,437	100,205
Current liabilities	32,636	44,235	29,937	19,232	70,667
Minority interests	110	229	606	88	2,361
Total liabilities and minority interests	32,746	44,464	30,543	19,320	73,028
Net assets	121,306	122,423	120,613	38,117	27,177
Share capital	48,000	48,000	48,000	36,000	30,000
Reserves	73,306	74,423	72,613	2,117	(2,823)
	121,306	122,423	120,613	38,117	27,177