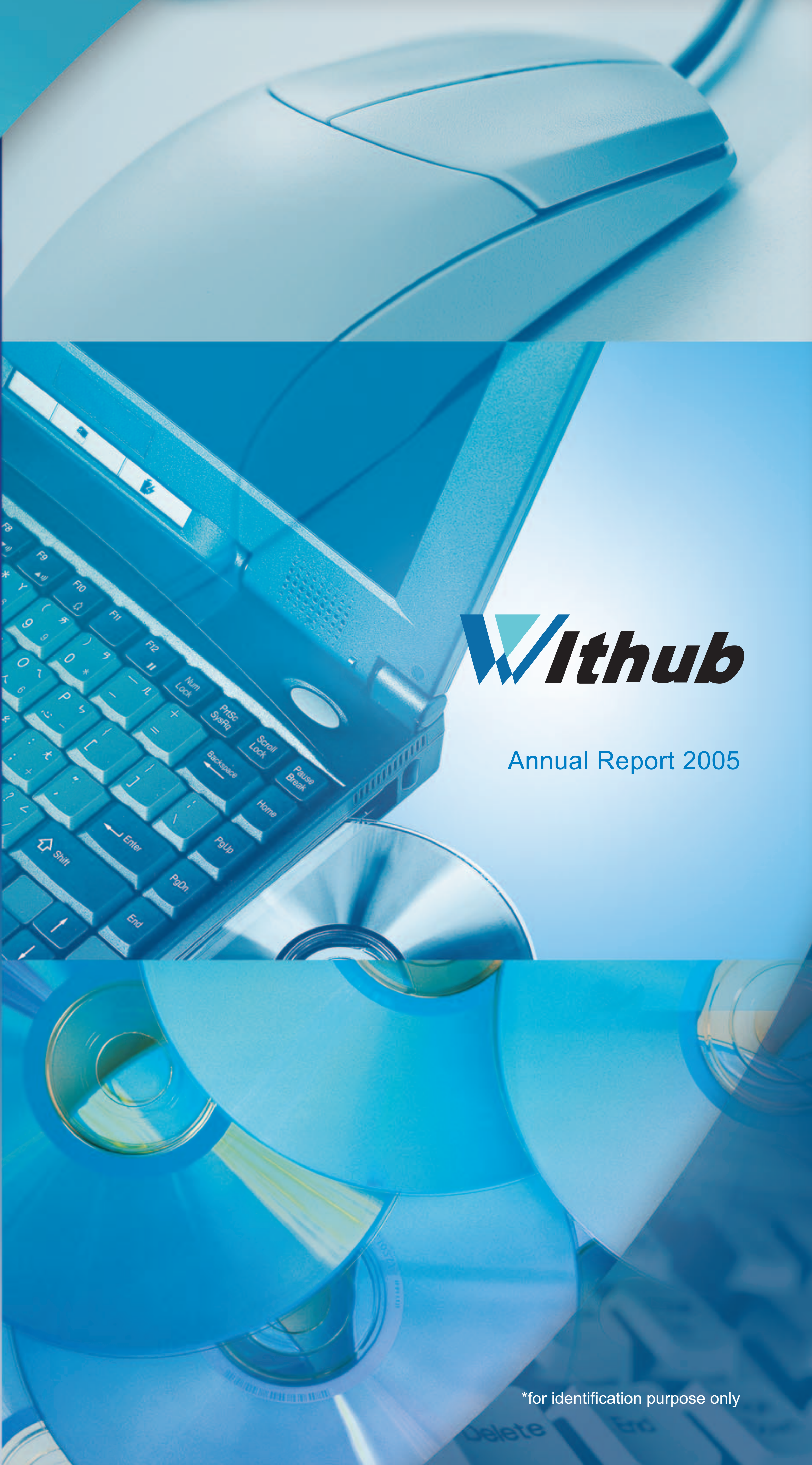
SHANGHAI JIAODA WITHUB INFORMATION INDUSTRIAL COMPANY LIMITED*

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

(Stock Code: 8205)



Withub

# Annual Report 2005

*for identification purpose only

# CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

This report, for which the directors (the "Directors") of Shanghai Jiaoda Withub Information Industrial Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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.

# Contents

# 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.

# Highlights

For the year ended 31 December 2005,

– turnover of the Group amounted to approximately RMB139,496,000 (2004: approximately RMB132,269,000) which represented a slight increase of approximately 5.46%;

– loss attributable to equity holders of the Company was approximately RMB9,691,000 (2004: approximately RMB1,068,000); and

– the Directors do not recommend the payment of a final dividend (2004: Nil).

* *For identification purposes only.*

# Corporate Information

## Executive Directors

Mr. Yuan Tingliang *(Chairman)*
Mr. Cheng Min *(Vice Chairman)*
Mr. Mo Zhenxi *(Vice Chairman)*
Mr. Wang Yiming *(Chief Executive Officer)*
Mr. Li Wei
Mr. Lu Yaohui
Mr. Qian Zhenying

## Independent Non-executive Directors

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

## Supervisors

Mr. Zhang Gongda
Mr. Yao Benqiang
Mr. Yu Jiming
Mr. Wang Liming
Ms. Qin Yan

## Company Secretary

Mr. Chong Cha Hwa *ACCA(UK)*

## Audit Committee and Remuneration Committee

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

## Qualified Accountant

Mr. Chong Cha Hwa *ACCA(UK)*

## Compliance Officer

Mr. Lu Yaohui

## Legal Address

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

## Principal Place of Business in Hong Kong

Suites 3306-12, 33/F
Shui On Centre
Nos. 6-8 Harbour Road
Wanchai
Hong Kong

## Principal Place of Business in the PRC

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

## Authorised Representatives

Mr. Cheng Min
Mr. Wang Yiming

## Principal Bankers

China Construction Bank
– Shanghai Sub-branch No. 2

Shanghai Bank
– Jin Guo Sub-branch

## Auditors

BDO McCabe Lo Limited
*Certified Public Accountants*
25th 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

Union Registrar Limited
311-312 Two Exchange Square
Central
Hong Kong

## Stock Code

8205

## Company Website

www.withub.com.cn

# 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 2005.

As the IT industry is still keen on competition, the year 2005 had been a year of challenge to strive for growth. The business environment of IT industry in the PRC was still undergoing a period of intense competition and low return. As IT industry still enjoying the high growth rate, a number of competitors increased significantly and attract them to invest. However, the Group expect to see some consolidation in the industry in the coming year as the weaker corporate operator will be phased out and being acquired. So the Group have to be more focused and to position corporate correctly in order to establish a niche and create a value in the chain of business for ourselves.

The Company recorded an annual growth rate of more than 10% in year 2005. As the business environment in Shanghai is still robust and continue to attract more foreign investors to come in, the demand for the IT products and service shall remain strong. The Group foresees that the market trend shall focus on the requirement for the more expensive and high end product. This high end product shall be confine to larger LCD display, better quality projector and high speed scanner.

During the year under review, the segment of business application solutions recorded a fall in turnover of 11.89% to approximately RMB48,312,000 and it is expected that this area will become more competitive as more software houses entered into the market. But this sector continues to be the core and main contributor to the Company's revenue in the coming year and the Company has taken step to improve the pricing of the product and also try to outsource the programming part in order to reduce the production cost. And the Company is committed to carry out the necessary research and development of the essential software products technology and allocate more resource in this segment.

Despite the keen market competition, the Group has rerecorded a total revenue of RMB91,184,000 (2004: RMB77,881,000), represented an increase of 17.08% as compared to the last year, in the sales of goods segment. As the need in the advance hardware is increase, the demand for the projector, better hardware equipment and server has resulted the sales of Sharp projector continue to be strong. The Company is confidence that the sales of hardware will remain strong and vibrant. The Company will build a good marketing team in order to penetrate the new market. The Company will work closer with Sharp in order to introduce more product line to the market. This segment will be more dominance and important as the Company is emphasizing the sales of the hardware.

The Group understands that in order to succeed in this IT business; it needs to provide more good quality products and service to the customer at the competitive price. The pace of change in IT is the ever increasingly fast and the Group see new products and software enter into the market every day. The Group needs to move at the same speed with the industry or the Group will be phased out.

# Chairman's Statement

However, it believes that the Group is able to execute its business plan and achieve its goal and target this year. The Group will able to take the pressure from the market and concentrate to do well in its business.

In 2005, the Group has committed to invest in Union Genesis Limited ("UGL"). UGL possess advanced technology in video chips development. During the first year of operation, UGL is moving fast to stabilize the production preparation, logistic and also the development of the sales market. The Company will continue to strengthen the management control in UGL in order to prepare for the sales expansion in future.

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

**Yuan Tingliang**
*Chairman*

Shanghai, the PRC, 20 March 2006

# Management Discussion and Analysis

## Results

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB139,496,000 (2004: approximately RMB132,269,000), representing a slight increase of approximately 5.46% as compared with that of the previous year. The Group recorded a loss to equity holders of the Company was approximately RMB9,691,000 for the year 2005 (2004: loss of approximately RMB1,068,000). The loss for this year was mainly due to the squeeze on the gross profit margin. The gross profit margin has dropped almost 46.40% to RMB11,520,000. The significant drop is due to the drop in the pricing of the product and service overall. Secondly, it is also due to the shift of product mix to hardware and equipment which has lower profit margin.

## Business Review

### Business Applications Solutions Segment

In the year under review, the segment of business application solutions recorded total revenue of approximately RMB48,312,000 (2004: RMB54,833,000) which represented a decrease of approximately 11.89% as compared with the previous year.

*Business Solutions Development*

The business solutions development segment recorded a turnover of RMB46,385,000 (2004: RMB53,628,000) during the year under review. The Company is able to maintain the existing customer bases and focuses remain on the solution in the specialized area of intelligent systems of network security, buildings and community. The area provides the core segment for the Company. The Company expected that this area will become more competitive as more software houses entered into the market. The Company has taken step to improve the pricing of the product and also tried to outsource the programming part in order to reduce the production cost.

*Application Software*

During the year under review, the turnover of application software was RMB124,000 (2004: RMB43,000) and this represent nearly 3 times of growth over past year. This segment able to show improvement is due to the good response from the customer. However, the sale is still comparatively small and plenty of opportunity is available in the area of e-Government, e-Parties, community information management, population profile management, welfare institution management and radio unity management. The Company will continue to pay effort to develop the business in this area. The Company is also committed to carry out the necessary research and development of the essential software products technology based on the demand from the market.

*Network and Data Security Products*

This market segment reported nearly 2.5 times growth over the past year and achieved sales value of RMB1,803,000 (2004: RMB717,000). The sales on this area remains strong as the market expanded. This is due to more corporate clients are willing to invest in the network equipment in the process of further computerizing their operation and department. In addition, more security products are needed due to the expansion in the internet usage and corporate user needs to protect their information from the illegal user. The prospects of this segment remain bright. It is foreseen that further sales increase is expected in future. The Company will put addition resource in this area.

# Management Discussion and Analysis

### Sales of Goods Segment

During the year under review, the sales of goods reported total revenue of RMB91,184,000 (2004: RMB77,881,000) and this represents an increase of approximately 17.08% as compared to last year. The Company is able to sell more units of Sharp projector and equipment this year due to the good product quality and also the pricing. The demand came from the education sector where more projector will be installed in the classroom when the government give a budget to upgrade the facilities of this area.

## Business Outlook

### Business Application Solutions

*Business Solutions Development*

This sector continues to be the core and main contributor to the Company revenue in the coming year. However, the market for this business is very competitive and challenging. Many software houses have entered into this market and this poses keen competition to the Company. This gives pressure to the Company's profit margin as the Company is forced to reduce price in order to maintain the market share. The market however remains strong and enjoy stable growth rate as corporate are upgrading their business solution in order to meet the demand of their business.

*Application Software*

The application software currently remains the small contributor to the Company sale. However, the prospect of this market segment is also positive and promising. Many medium and small companies in China and especially in Shanghai are in the process of upgrading their computer and information technology systems in order to satisfy the demand of the market. The Company will allocate proper resources as to grow this market.

*Network and Data Security Products*

This is a good market for the Company to develop. More and more companies are using the networking power and facilities and this creates good demand for the product. The data security product is also facing the same situation where more companies tap on the power and convenience of internet. This generates the strong demand for the security product in order to protect the company information system from the broken in, virus and also scam information. This is evidenced by the fact that sales has more than double in last financial year. As a result, the Company will also allocate more resource in this area.

### Sales of Goods Segment

As the software gets more advance, this resulted more advance hardware to be needed in the market. The demand for the projector, better hardware equipment and server has resulted the sales of Sharp project continue to be strong. The Company is confident that the sales of hardware will remain strong and vibrant. The Company will build a good marketing team in order to penetrate the new market. The Company will work closer with Sharp in order to introduce more product line to the market. This segment will be more dominant and important as the Company is emphasizing the sales of the hardware.

# Management Discussion and Analysis

### New Business Opportunity

The Company is continuing to look for the business opportunity in the IT related industry. The IT industry is keen on the sector that enjoys high growth rate every year and attracts many corporate to invest in the area.

## Liquidity, Financial Resources and Capital Structure

As at 31 December 2005, shareholders' funds of the Group amounted to approximately RMB111,369,000 (2004: RMB121,306,000). Current assets amounted to approximately RMB110,648,000 (2004 (restated): RMB118,607,000), of which approximately RMB43,311,000 (2004: RMB45,658,000) were cash and bank balances. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB48,712,000 (2004: RMB32,636,000), 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 2005, the Group had a net cash position and its working capital ratio (current assets to current liabilities) was 2.27 (2004 (restated): 3.63); and gearing ratio (long-term debt to shareholders' funds) was zero (2004: zero).

## Capital Commitments and Significant Investments

The Group had no capital commitments and significant investments for the year ended 31 December 2005.

## Material Acquisitions or Disposals

### Business Operation in UGL

The Group has made an investment in Union Genesis Limited ("UGL"), a company incorporated in the British Virgin Islands, by subscribing 45% of the issued share capital of UGL at a consideration of US$2,250,000 (equivalent to HK$17,550,000) on 3 March 2005.

UGL possess advanced technology in video chips development. During the first year of operation, UGL is moving fast to stabilize the production preparation, logistic and also the development of the sales market. The Group will continue to strengthen the management control in UGL in order to prepare for the sales expansion in future.

Save as disclosed herein, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2005.

## 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 5 to the financial statements.

# Management Discussion and Analysis

## Employee Information

As at 31 December 2005, the Group had 131 full time employees (2004: 259), comprising 38 in management, finance and administration (2004: 48), 52 in research and development (2004: 77), 30 in application development and engineering (2004: 70), nil in production (2004: 15), and 11 in sales and marketing (2004: 49). Also, the Group had 18 school staff (2004: 35).

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 2005 was RMB10,562,000 (2004: RMB14,565,000).

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 2005, the Group had not pledged any assets to its bankers to secure banking facilities granted to the Group (2004: Nil).

## Details of Future Plans for Material Investments or Capital Assets

The Directors presently do not have any future plans for material investments or capital assets. The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

## Foreign Exchange Exposure

During the year ended 31 December 2005, the Group's monetary assets and transactions are denominated in RMB, HKD and USD. Though the exchange rates between RMB, HKD and USD are not pegged, there are little fluctuation of exchange rates among RMB, HKD and USD. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## Contingent Liabilities

As at 31 December 2005, the Group did not have any significant contingent liabilities.

# 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

Mr. Yuan Tingliang (袁廷亮), aged 59, holds a Bachelor degree and is a Senior Engineer. Mr. Yuan joined the Company in May 1998 when it was incorporated and is the Chairman of the Company and 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 電子信息學院副院長 (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 Shanghai Jiaoda Industrial Investment Management (Group) Limited which is a substantial shareholder of the Company.

Mr. Cheng Min (程敏), aged 55, 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 上海香海化妝品銷售有限公司 (Shanghai Xiang Hai Cosmetics Limited) and 上海匯星電腦網絡工程有限公司 (Shanghai Hui Xing Computer Network Engineering Limited), Vice Chairman of 上海復旦綠源泉生物醫藥科技有限公司 (Shanghai Futan Green Spring Bio-Pharmaceutical Technology 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 Jiaoda Science and Technology Park Limited) which is a substantial shareholder of the Company. Mr. Cheng is a board representative for Shanghai Xin Xuhui (Group) Limited which is a substantial shareholder of the Company.

Mr. Mo Zhenxi (莫振喜), aged 51, joined the Company since April 1998 and is the Vice Chairman and responsible for the supervision of the Company's operation and financial activities. Since 1979, he had held several positions including deputy-secretary in 上海汽車配件廠配覺支部 (Shinghai Motor Parts Distribution Department), 紀檢員 (a prosecutor) in 上海市紀委正科 (Shanghai Disciplinary Correction Section) and a department head in Shanghai Technology Investment Company and General Manager and Chief Officer of Shanghai Technology Investment Company.

# Biographical Details of Directors, Supervisors and Senior Management

## DIRECTORS (Continued)

### Executive Directors (Continued)

Mr. Wang Yiming (王亦鳴), aged 38, 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.

Mr. Li Wei (李瑋), aged 29, graduated from Department of Management Science and Engineering of the School of Management of Shanghai Jiao Tung University in 2003 with a Doctoral degree in Management. During his study, Mr. Li conducted research mainly in the field of finance, insurance and social security, and involved in various research projects on National Natural Science Foundation of China and corporate trust. He has also published over ten thesis in industry publications. He worked at the State-owned Assets Administration Office of Shanghai Xuhui District and was responsible for strategic development and planning, and formulating researches and proposals for regional state-owned assets and enterprises reform. He has acted as the deputy manager of the investment division of 上海徐匯國有資產投資經營有限公司 since July 2004, in which he was responsible for corporate investment, hi-tech projects investment and capital management.

Mr. Lu Yaohui (陸耀輝), aged 35, graduated from 制造工藝與設備專業 of Department of Mechanical Engineering of Shanghai Jiao Tong University and obtained a Bachelor degree in Industrial Engineering in 1992. Mr. Lu also graduated from Department of Engineering Management (majored in enterprise management) of School of Management of Shanghai Jiao Tong University in 2003 with a Master degree in Management. He was a tutor and lecturer of 機制造基礎教研室 of Department of Mechanical Engineering and Deputy Chief Secretary and 團委書記 (Secretary) for 學生工作指導委員會 (Steering Committee of Student Affairs) of Shanghai Jiao Tong University. He is the Executive Vice President and Deputy Secretary of 上海交大產業集團 (Shanghai Jiaoda Industrial Group), Managing Director of 上海交大海科(集團)有限公司 and a director of National Technology Transfer Centre and Shanghai Jiaoda Science and Technology Park Limited which is a substantial shareholder of the Company.

Mr. Qian Zhenying (錢振英), aged 62, graduated from 上海工業院 in 1968. He obtained a Master degree and a Doctoral degree in Automatic Control from Shanghai Jiao Tong University in 1981 and 1985 respectively. He also acted as tutor during his study for the doctoral degree. Mr. Qian worked at the oxygen generating plant of Wusong Chemical Factory and 貴州五嶺化工廠 and has over 10 years of experience in related technological research. He is the officer of Shanghai Withub High Technology Industrial Centre and the general manager of Shanghai Jiaoda Science and Technology Park Limited which is a substantial shareholder of the Company.

# Biographical Details of Directors, Supervisors and Senior Management

## DIRECTORS (Continued)

### Independent Non-executive Directors

Professor Shao Shihuang (邵世煌), aged 67, 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.

Professor Gu Junzhong (顧君忠), aged 56, 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) and 第三屆上海市信息化專家委員 (Member of the third IT Advisor Committee of Shanghai Municipal Government). 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. Hu Shao-ming, Herman (胡曉明), JP, BSc, FCIBSE, FHKIE, MBIM, MIEEE, CEng., aged 52, is the 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 Hong Kong Sports Commission, Chairman of Major Sports Events Committee and Director of Hong Kong Sports Institute. 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 59, 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

## SUPERVISORS

Mr. Zhang Gongda (張功達), aged 47, is the chairman of the Company's supervisory committee and responsible for the supervision of the overall business and financial activities of the Company. Mr. Zhang holds a Bachelor degree and is a senior economist and an accountant. Mr. Zhang has over 28 years of experience in financial budgeting and investment management. He was the 科長 (Section Chief) of 崇明縣財政局綜合預算科 (Consolidated Budgetary Section of Xuemin County Finance Office), the manager of 崇明營業部 (Operation Division (Chong Ming)) of Shanghai Finance Securities Co., 科長 (Section Chief) of 徐匯區財政局綜合計劃預算科 (Consolidated Planning and Budgetary of Xuhui District Finance Office) and 徐匯區財政局局長助理 (Assistant to Secretary of Xuhui District Finance Office). Mr. Zhang is 常務副總經理 (Executive Deputy General Manager) of 徐匯區國有資產投資經營有限公司 and deputy officer of State-owned Assets Administration Office of Xuhui District. Mr. Zhang was appointed by the Company in July 2005.

Mr. Yao Benqiang (姚本強), aged 53, is a supervisor of the Company and responsible for the supervision of the Company's 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.

Mr. Yu Jiming (俞紀明), aged 47, is a supervisor of the Company and responsible for the supervision of the Company's operation and financial activities. Mr. Yu graduated with Bachelor degree in University of Science and Technology Beijing and is a Senior Accountant and a registered accountant. Mr. Yu held various positions in 上海浦東鋼鐵公司 including 財務處成本科管理員、組長及科長 (Administrator, Supervisor and Section Chief of Cost Section of Finance Department), 財務處副處長 (Deputy Head of Finance Department) and 對外經濟貿易處處長 (Head of Foreign Economic and Trade Department) and 副總會計師 (Deputy Chief Accountant). He was also the General Manager of 三綱國際貿易公司. Since 1999, Mr. Yu has acted as the Manager of Finance Division of Shanghai Science & Technology Investment Corporation, a director and Chief Finance Officer of 上海眾恒信息產業有限公司, 監事長 (Head of Supervisors) of 上海燃料動力汽車有限公司 and a supervisor of 上海格爾軟件股份有限公司, Shanghai ShenTeng Information Technology Co., Ltd. and 上海科技同濟信息技術有限公司 (Shanghai Technology Tong Ji Information Company). Mr. Yu was appointed by the Company in July 2005.

Mr. Wang Liming (王禮明), aged 57, is a Supervisor of the Company and responsible for the supervision of the Company's operation and financial activities. Mr. Wang graduated from Shanghai Television University with a Bachelor degree in Accountancy in 1986 and is an accountant. Mr. Wang acted as the 副科長 (Deputy Section Chief), 科長 (Section Chief) and 處長 (Head) of 財務處 (Finance Office) of Shanghai Jiao Tong University, Deputy General Manager of Simplex Computer Limited and 上海申通國際有限公司 and Deputy General Manager and General Manager of 上海交大聯合科技有限公司. He is also the Deputy Chief Economist of 上海交大產業集團 (Shanghai Jiaoda Industrial Group). Mr. Wang was appointed by the Company in July 2005.

# Biographical Details of Directors, Supervisors and Senior Management

## SUPERVISORS (Continued)

Ms. Qin Yan (秦燕), aged 31, 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.

## SENIOR MANAGEMENT

Ms. Cao Zhen (曹蓁), aged 36, graduated from Shanghai Jiao Tung University. Ms. Cao is the vice president of the Company and the general manager of the integration business, in charge of the system integration business. Ms. Cao had worked in various positions including 上海交大科外系語言所 (Shanghai Jiaoda Ke Wai System Language Centre) as an engineer, 上海天明科技有限公司 as a manager, 上海瀚英實業發展有限公司 (Shanghai Han Ying Industrial Development Company Limited) as a manager, the general manager of Network Integration Centre (網絡集成中心) of the Company and being a chief project officer of the Company. Ms. Cao was appointed by the Company in May 2005.

Mr. Wang Decai (王德才), aged 45, is the vice president of the Company and the general manager of the software business, in charge of the software business of the Company. 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, 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 and the general manager of 上海交大慧谷軟件有限公司 (Shanghai Jiaoda Withub Software Company Limited). Mr. Wang possesses knowledge in financial operation and business management. He was appointed by the Company in May 1998.

Mr. Zhang Yuanyuan (張元元), aged 33, graduated from Shanghai Jiao Tung University with an MBA. Mr. Zhang is the vice president of the Company, in charge of the business management, human resources management, investment management of subsidiaries, qualification certification management, etc. Mr. Zhang had worked in various positions including Royton Technologies Co. Ltd. as a chief investment officer, 上海三九藥店有限責任公司 (Shanghai San Jiu Yao Dian Company Limited) as a managing director, 江蘇三九醫藥零售有限公司 (Jiangsu San Jiu Yi Yao Retail Company Limited) as a president, 杭州三九醫藥零售有限公司 (Hangzhou San Jiu Yi Yao Retail Company Limited) as a director, 上海三九醫藥有限公司 as a director, 上海價美醫藥零售連鎖有限公司 (Shanghai Jia Mei Yi Yao Retail Chain Company Limited) as a director. Mr. Zhang Yuanyuan was appointed by the Company in May 2005.

# Biographical Details of Directors, Supervisors and Senior Management

## SENIOR MANAGEMENT (Continued)

Mr. Li Yonghua (李勇華), aged 43, 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. Chong Cha Hwa (張家華), aged 40, 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 14 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 2005.

## 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 19.8% of the Group's turnover for the year, of which the largest customer accounted for 5.9% of the Group's turnover for the year.

Purchases from major suppliers accounted for the following percentages:

| | |
|---|---|
| The largest supplier: | 35.9% |
| Total percentage of the five largest suppliers: | 75.1% |

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 2005 are set out in the annual report on pages 29 to 70.

## Dividends

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2005.

## Financial Summary

A summary of the results and assets and liabilities of the Group for each of the five years ended 31 December 2005 is set out on page 71 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 13 to the financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

# Report of the Directors

## 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 2005 to 31 December 2005, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2005, 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 26 to the financial statements.

# Report of the Directors

## Retirement Benefits

Details of the retirement benefit schemes of the Group are set out in note 30 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***

| | |
|---|---|
| Mr. Yuan Tingliang（袁廷亮） | |
| Mr. Cheng Min（程敏） | |
| Mr. Mo Zhenxi（莫振喜） | (appointed on 7 July 2005) |
| Mr. Wang Yiming（王亦鳴） | |
| Mr. Li Wei（李瑋） | (appointed on 7 July 2005) |
| Mr. Lu Yaohui（陸耀輝） | (appointed on 7 July 2005) |
| Mr. Qian Zhenying（錢振英） | (appointed on 7 July 2005) |
| Professor Xu Xiaoming（許曉鳴） | (retired on 7 July 2005) |
| Mr. Chen Weifeng（陳偉豐） | (retired on 7 July 2005) |
| Professor Chen Jianbo（陳劍波） | (retired on 7 July 2005) |
| Mr. Hua Xin（華欣） | (retired on 7 July 2005) |

***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）

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

| | |
|---|---|
| Mr. Zhang Gongda（張功達） | (appointed on 7 July 2005) |
| Mr. Yao Benqiang（姚本強） | |
| Mr. Yu Jiming（俞紀明） | (appointed on 7 July 2005) |
| Mr. Wang Liming（王禮明） | (appointed on 7 July 2005) |
| Ms. Qin Yan（秦燕） | |
| Ms. Yuan Cai Feng（袁彩鳳） | (retired on 7 July 2005) |
| Mr. Mo Zhenxi（莫振喜） | (retired on 7 July 2005) |
| Mr. Wang Qiuhua（王秋華） | (retired on 7 July 2005) |

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.

# Report of the Directors

## Directors' and Supervisors' Service Contracts

The Company did not enter into any service contract with its executive Directors and independent non-executive Directors and each of the executive Directors, independent non-executive Directors and Supervisors, except Mr. Wang Yiming ("Mr. Wang") disclosed below, is not entitled to any salary or other remuneration and/or benefits.

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.

## Biographical Details of Directors, Supervisors and Senior Management

Biographical details of directors, supervisors and senior management are set out on pages 10 to 15 of the Annual Report.

## Directors', Supervisors' and Senior Executives' Emoluments

Details of the directors', supervisors' and senior executives' emoluments and the highest paid individuals are set out in note 8 to the financial statements.

## Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the interests and short positions of the Directors, the supervisors ("Supervisors") of the Company (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") had applied to the supervisors) or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

| Name of Directors | The Company/ name of subsidiary | Capacity | Number and class of securities (Note 1) | Approximate percentage in the issued share capital of the Company/ subsidiary |
|---|---|---|---|---|
| Cheng Min | Company | Beneficial owner | 4,700,000 domestic shares (L) | 0.98% |
| Wang Yiming | Company | Beneficial owner | 9,840,000 domestic shares (L) | 2.05% |
| | Shanghai Huikang Information Technology Company Limited (Note 2) | Beneficial owner | 100,000 shares (L) | 10.00% |

Notes:

1. The letter "L" represents the interests in the share and underlying shares of the Company or its associated corporations.

2. Shanghai Huikang Information Technology Company Limited is one of the subsidiaries of the Company.

# Report of the Directors

Save as disclosed above, as at 31 December 2005, none of the Directors, supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

## 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.

## Substantial Shareholders' and Other Persons' Interests and Short Position in Shares and Underlying Shares in the Company

### A. Substantial shareholders

As at 31 December 2005, 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 and were directly or indirectly interested in 10 per cent or more of the Shares:

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

Notes:

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

2. These 114,000,000 Domestic Shares are registered and owned by Shanghai Jiaoda Science and Technology Park Limited ("Jiaoda S&T Park"). The major shareholder of Jiaoda S&T Park is Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial") which owns 55.42% of registered capital in Jiaoda S&T Park. Shareholders of Jiaoda Industrial are Shanghai Jiao Tong University (96.735%) and Shanghai Jiaoda Enterprise Management Centre (3.265%), an entity wholly-owned by Shanghai Jiao Tong University. Both Jiaoda Industrial and Shanghai Jiao Tong University are deemed to be interested in the aggregate of 114,000,000 Domestic Shares held by Jiaoda S&T Park under the SFO.

3. These 60,000,000 Domestic Shares are registered and owned by Shanghai Xin Xuhui (Group) Limited, the registered capital of which will be owned as to approximately 74.58% by Xuhui District Industrial Association after the completion of certain capital reorganisation as referred to in the Prospectus. Xuhui District Industrial Association is deemed to be interested in the 60,000,000 Domestic Shares held by Shanghai Xin Xuhui (Group) Limited under the SFO.

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

As at 31 December 2005, 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 | Nature of interest | Number and class of shares (Note) | Approximate percentage of interest |
|---|---|---|---|
| Chen Jianbo | Beneficial owner | 24,300,000 domestic shares (L) | 5.06% |

Note: The letter "L" represents the entityís interest in the shares of the Company.

Save as disclosed above, as at 31 December 2005, 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.

## Connected and Related Party Transactions

Details of connected and related party transactions are 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.

# Report of the Directors

## Audit Committee

The Company established an audit committee on 7 July 2002 with written terms of reference which was revised on 1 July 2005 to substantially the same as the provisions as set out in the Code on Corporate Governance Practices which became effective for accounting periods commencing on or after 1 January 2005. 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 2005 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 2005. 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 2005.

## Board Practices and Procedures

Throughout the year ended 31 December 2005, the Company was in compliance with the Board Practices Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which were in force prior to January 2005. Except that from 1 July 2005, actions were taken to comply with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("CG Code"), which has become effective for accounting periods commencing on or after 1 January 2005 to replace the Board Practices and Procedures as set in Rules 5.34 to 5.45 of the GEM Listing Rules.

## Auditors

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo Limited and BDO Shanghai Zhonghua Certified Public Accountants as international and domestic auditors of the Company respectively. The Company has not changed its auditors in the preceding three years.

On behalf of the Board

**Yuan Tingliang**
*Chairman*

Shanghai, the PRC, 20 March 2006

# Report of the Supervisory Committee

To: All Shareholders

Shanghai Jiaoda Withub Information Industrial Company Limited has complied with the Company Law of the PRC during the year ended 31 December 2005, 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 Limited, 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 2005 and are confident about the prospects and future development of the Group.

On behalf of the Supervisory Committee

**Zhang Gongda**
*Chairman of the Supervisory Committee*

Shanghai, the PRC, 20 March 2006

# Report of Corporate Governance

The Group has complied with most of the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules ("CG Code") other than the deviations as disclosed in this report.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

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

## BOARD OF DIRECTORS

The Board comprises eleven Directors, of whom seven are executive Directors and four are independent non-executive Directors. Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the pages 10 to 15 of the Annual Report. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Company did not enter into any service contract with its executive Directors and independent non-executive Directors. However, according to the article 96 of the articles of association of the Company, the terms of the Directors shall be three years. Upon the expiry of the term, the Directors shall be eligible for re-election at the Shareholders' general meeting of the Company. Therefore, the terms of Mr. Yuan Tingliang, Mr. Cheng Min, Mr. Mo Zhenxi, Mr. Li Wei, Mr. Lu Yaohui, Mr. Qian Zhenying, all are executive Directors and Professor Shao Shihuang, Professor Gu Junzhong and Mr. Herman Shao-ming Hu, all are independent non-executive Directors, are commencing from 7 July 2005 to 7 July 2008 and Mr. Wang Yiming, executive Director, and Professor Yang Junchang, independent non-executive Director, are commencing from 30 September 2004 to 30 September 2007.

The Board considers that all of the independent non-executive Directors are independent as to the Company has received from each of them the annual confirmation of independence required by the GEM Listing Rules.

The board of directors of the Company comprises:

**Executive Directors**
Mr. Yuan Tingliang
Mr. Cheng Min
Mr. Mo Zhenxi
Mr. Wang Yiming
Mr. Li Wei
Mr. Lu Yaohui
Mr. Qian Zhenying

# Report of Corporate Governance

**Independent Non-executive Directors**
Professor Shao Shihuang
Professor Gu Junzhong
Mr. Herman Shao-ming Hu
Professor Yang Junchang

The Board is responsible for the leadership and control of the Company and also approve business plans, evaluate the performance of the Group and oversight of management. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board held a board meeting for each quarter during the year ended 31 December 2005. Details of the attendance of the Board are as follows:

| | | Attendance |
|---|---|---|
| **Executive Directors** | | |
| Mr. Yuan Tingliang | | 4/4 |
| Mr. Cheng Min | | 4/4 |
| Mr. Mo Zhenxi | (appointed on 7 July 2005) | 2/2 |
| Mr. Wang Yiming | | 4/4 |
| Mr. Li Wei | (appointed on 7 July 2005) | 2/2 |
| Mr. Lu Yaohui | (appointed on 7 July 2005) | 2/2 |
| Mr. Qian Zhenying | (appointed on 7 July 2005) | 2/2 |
| Professor Xu Xiaoming | (retired on 7 July 2005) | 2/2 |
| Mr. Chen Weifeng | (retired on 7 July 2005) | 2/2 |
| Professor Chen Jianbo | (retired on 7 July 2005) | 1/2 |
| Mr. Hua Xin | (retired on 7 July 2005) | 1/2 |
| **Independent Non-executive Directors** | | |
| Professor Shao Shihuang | | 3/4 |
| Professor Gu Junzhong | | 4/4 |
| Mr. Herman Shao-ming Hu | | 0/4 |
| Professor Yang Junchang | | 3/4 |

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

# Report of Corporate Governance

## CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

In order to maintain the transparency and independence of the corporate governance, the Chairman of the Company is Mr. Yuan Tingliang, the Vice-chairmen of the Company are Mr. Cheng Min and Mr. Mo Zhenxi and the Chief Executive Officer of the Company is Mr. Wang Yiming. The roles of the Chairman, Vice-Chairman and the Chief Executive are segregated and assumed by those separate individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, the Vice-chairmen are responsible for the overall business planning of the Group, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman, Vice-chairmen and the Chief Executive Officer have been clearly established and set out in writing.

## REMUNERATION COMMITTEE

The remuneration committee was established on 7 July 2005 and comprising three independent non-executive directors of the Company, namely Professor Gu Junzhong (the Chairman of the Committee), Professor Shao Shihuang and Professor Yang Junchang.

The role and function of the remuneration committee included the determination of the remuneration package of all directors and senior management of the Company. The principal elements of the remuneration package may include basic salary, discretionary bonus and share option. The determined guidelines are based on their skill, knowledge and involvement in the Company's affairs and which are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the Chairman and Chief Executive Officer about its proposals relation to the remuneration of the directors and senior management of the Company. During the year, no meeting was held as to the remuneration proposal for directors and supervisors of the Company for the year 2005 has been approved on 2004 annual general meeting, therefore, the remuneration committee meeting was considered not to be held. A remuneration committee meeting will be convened in 2006.

However, the Company has not disclosed the terms of reference of remuneration committee by including such information on the Company website. The Company will take appropriate actions to comply with the CG Code.

## AUDITORS' REMUNERATION

An amount of approximately RMB685,000 was charged to the Group's income statement for the year ended 31 December 2005 for the services including audit and other advisory services. There was no significant non-audit services assignment undertaken by the auditors during the year.

# Report of Corporate Governance

## AUDIT COMMITTEE

The audit committee was established on 7 July 2002 with written terms of reference which was revised on 1 July 2005 to substantially the same as the provision as set out the CG Code which became effective for accounting period commencing on or after 1 January 2005. The audit committee has reviewed and confirmed the connected transactions undertaken by the Company during the year ended 31 December 2005. 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.

The Audit committee comprises three independent non-executive directors of the Company, Professor Yang Junchang, Professor Shao Shihuang and Professor Gu Junzhong.

The Audit committee held four formal meetings during the year ended 31 December 2005. Details of the attendance of the audit committee meeting are as follows:

| Name of Members | Attendance |
|---|---|
| Professor Gu Junzhong (Chairman) | 4/4 |
| Professor Yang Junchang | 3/4 |
| Professor Shao Shihuang | 3/4 |

The Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

However, the Company has not disclosed the terms of reference of audit committee by including such information on the Company website. The Company will take appropriate actions to comply with the CG Code.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

### Annual Report and Financial Statements

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the quarterly and annual financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Group position and prospects.

### Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

### Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

### Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, its is appropriate to adopt the going concern basis in preparing the financial statements.

# Auditors' Report

**BDO McCabe Lo Limited**
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司
執業會計師
香港干諾道中一百一十一號
永安中心二十五樓
電話：(八五二)二五四一五○四一
傳真：(八五二)二八一五○○○二

**TO THE SHAREHOLDERS OF**
**上海交大慧谷信息產業股份有限公司**
**SHANGHAI JIAODA WITHUB INFORMATION INDUSTRIAL COMPANY LIMITED**
*(incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 29 to 70 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 Hong Kong Standards on Auditing 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 Group and the Company as at 31 December 2005 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 Limited**
*Certified Public Accountants*

**Chow Tak Sing, Peter**
Practising Certificate Number P04659
Hong Kong, 20 March 2006

# Consolidated Income Statement

For the year ended 31 December 2005

| | Notes | 2005 RMB'000 | 2004 RMB'000 (restated) |
|---|---|---|---|
| Turnover | *4* | **139,496** | 132,269 |
| Cost of sales | | **(127,976)** | (111,887) |
| Gross profit | | **11,520** | 20,382 |
| Other revenue | *6* | **4,062** | 7,701 |
| Distribution expenses | | **(3,583)** | (4,932) |
| Research and development expenses | | **(2,621)** | (3,750) |
| Administration expenses | | **(17,162)** | (18,324) |
| (Loss)/profit from operations | *7* | **(7,784)** | 1,077 |
| Finance costs | *9* | **–** | (441) |
| Gain on deemed disposal of a subsidiary | | **669** | – |
| Share of profits less losses of associates | | **(3,291)** | (1,504) |
| Loss before tax | | **(10,406)** | (868) |
| Tax expense | *10* | **–** | (319) |
| Loss for the year | | **(10,406)** | (1,187) |
| Attributable to: | | | |
| – Equity holders of the Company | | **(9,691)** | (1,068) |
| – Minority interests | | **(715)** | (119) |
| | | **(10,406)** | (1,187) |
| Dividends | | **–** | – |
| Loss per share (in RMB) | *12* | | |
| – Basic | | **(0.0202)** | (0.0022) |
| – Diluted | | **N/A** | N/A |

# Consolidated Balance Sheet

As at 31 December 2005

| | Notes | **2005 RMB'000** | 2004 RMB'000 (restated) |
|---|---|---|---|
| Non-current assets | | | |
| Plant and equipment | *13* | **2,258** | 2,971 |
| Interests in associates | *15* | **41,025** | 26,256 |
| Available-for-sale investments | *19* | **1,916** | 1,650 |
| Goodwill | *17* | **–** | 34 |
| Other intangible asset | *16* | **3,750** | 4,050 |
| Deferred tax assets | *24* | **484** | 484 |
| | | **49,433** | 35,445 |
| Current assets | | | |
| Inventories | *18* | **9,462** | 9,842 |
| Trade debtors | *20* | **21,230** | 32,998 |
| Deposits, prepayments and other debtors | | **34,141** | 27,852 |
| Amounts due from related parties | *32* | **1,479** | 1,016 |
| Amounts due from associates | *32* | **1,025** | 1,241 |
| Cash and bank balances | | **43,311** | 45,658 |
| | | **110,648** | 118,607 |
| Current liabilities | | | |
| Trade creditors and bills payable | *22* | **11,911** | 6,901 |
| Other creditors and accrued expenses | *23* | **34,745** | 24,384 |
| Amount due to an associate | *32* | **832** | 68 |
| Income taxes payable | | **1,224** | 1,283 |
| | | **48,712** | 32,636 |
| Net current assets | | **61,936** | 85,971 |
| TOTAL NET ASSETS | | **111,369** | 121,416 |
| Capital and reserves attributable to shareholders of the Company | | | |
| Share capital | *25* | **48,000** | 48,000 |
| Reserves | *26* | **63,369** | 73,306 |
| Equity attributable to equity holders of the Company | | **111,369** | 121,306 |
| Minority interests | | **–** | 110 |
| TOTAL EQUITY | | **111,369** | 121,416 |

On behalf of the Board

**Yuan Tingliang**
*Director*

**Wang Yiming**
*Director*

# Balance Sheet

As at 31 December 2005

| | Notes | 2005 RMB'000 | 2004 RMB'000 (restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | *13* | **1,844** | 1,833 |
| Investments in subsidiaries | *14* | **13,769** | 16,269 |
| Available for-sale investments | *19* | **1,930** | 1,650 |
| Interests in associates | *15* | **27,035** | 30,035 |
| Other intangible asset | *16* | **3,750** | 4,050 |
| Deferred tax assets | *24* | **484** | 484 |
| | | **48,812** | 54,321 |
| **Current assets** | | | |
| Inventories | *18* | **9,457** | 8,027 |
| Trade debtors | *20* | **20,715** | 31,236 |
| Deposits, prepayments and other debtors | | **33,893** | 24,424 |
| Amounts due from a subsidiary | *21* | **–** | 3,600 |
| Amount due from a related party | *32* | **479** | 16 |
| Amounts due from associates | *32* | **1,025** | 1,241 |
| Cash and bank balances | | **35,148** | 34,302 |
| | | **100,717** | 102,846 |
| **Current liabilities** | | | |
| Trade creditors and bills payable | *22* | **11,585** | 5,562 |
| Other creditors and accrued expenses | *23* | **20,347** | 20,565 |
| Amounts due to subsidiaries | | **–** | 2,122 |
| Amount due to an associate | *32* | **832** | 68 |
| Income taxes payable | | **1,224** | 1,283 |
| | | **33,988** | 29,600 |
| Net current assets | | **66,729** | 73,246 |
| TOTAL NET ASSETS | | **115,541** | 127,567 |
| **Capital and reserves attributable to shareholders of the Company** | | | |
| Share capital | *25* | **48,000** | 48,000 |
| Reserves | *26* | **67,541** | 79,567 |
| TOTAL EQUITY | | **115,541** | 127,567 |

On behalf of the Board

**Yuan Tingliang**
*Director*

**Wang Yiming**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory reserves RMB'000 | Foreign exchange reserve RMB'000 | Accumulated losses RMB'000 | Equity attributable to equity holders of the Company RMB'000 | Minority interest RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | | |
| At 31 December 2004 | 48,000 | 61,068 | 16,000 | 223 | (49) | (3,936) | 121,306 | 110 | 121,416 |
| Loss for the year | – | – | – | – | – | (9,691) | (9,691) | (715) | (10,406) |
| Deemed disposal of a subsidiary | – | – | – | – | – | – | – | 605 | 605 |
| Translation of financial statement of an overseas subsidiary | – | – | – | – | 93 | – | 93 | – | 93 |
| Translation of financial statement of overseas associates | – | – | – | – | (339) | – | (339) | – | (339) |
| **At 31 December 2005** | **48,000** | **61,068** | **16,000** | **223** | **(295)** | **(13,627)** | **111,369** | **–** | **111,369** |
| 2004 | | | | | | | | | |
| At 31 December 2003 | 48,000 | 61,068 | 16,000 | 223 | – | (2,868) | 122,423 | 229 | 122,652 |
| Loss for the year | – | – | – | – | – | (1,068) | (1,068) | (119) | (1,187) |
| Translation of financial statement of an overseas subsidiary | – | – | – | – | (49) | – | (49) | – | (49) |
| At 31 December 2004 | 48,000 | 61,068 | 16,000 | 223 | (49) | (3,936) | 121,306 | 110 | 121,416 |

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

| | Note | **2005** **RMB'000** | 2004 RMB'000 (restated) |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loss before tax | | **(10,406)** | (868) |
| Adjustments for: | | | |
| Depreciation | | **1,318** | 1,013 |
| Interest income | | **(255)** | (723) |
| Interest expenses | | **–** | 441 |
| Loss on disposal of plant and equipment | | **2** | 46 |
| Amortisation of goodwill | | **–** | 58 |
| Impairment of goodwill | | **34** | – |
| Amortisation of other intangible asset | | **300** | 300 |
| Gain on deemed disposal of a subsidiary | | **(669)** | – |
| Dividends from trading securities | | **–** | (39) |
| Share of profits less losses of associates | | **3,291** | 1,504 |
| **Operating (loss)/profit before working capital changes** | | **(6,385)** | 1,732 |
| (Increase)/decrease in inventories | | **(560)** | 1,951 |
| Decrease/(increase) in trade debtors | | **11,530** | (3,518) |
| Increase in deposits, prepayments and other debtors | | **(7,281)** | (14,834) |
| Increase in amounts due from related parties | | **(463)** | (626) |
| Decrease/(increase) in amounts due from associates | | **216** | (1,011) |
| Increase/(decrease) in trade creditors and bills payable | | **5,400** | (11,484) |
| Increase in other creditors and accrued expenses | | **14,342** | 3,465 |
| Increase/(decrease) in amount due to an associate | | **764** | (727) |
| **Cash generated/(used in) from operations** | | **17,563** | (25,052) |
| Interest received | | **255** | 723 |
| Income taxes paid | | **(59)** | – |
| Net cash generated/(used in) from operating activities | | **17,759** | (24,329) |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | | **(1,145)** | (1,169) |
| Proceeds from disposal of plant and equipment | | **1** | 37 |
| Payment for investment in associates | | **(18,584)** | (721) |
| Deemed disposal of a subsidiary | *27* | **(439)** | – |
| Decrease in pledged time deposit | | **–** | 15,052 |
| Dividends received from associates | | **185** | 125 |
| Dividends received from trading securities | | **–** | 39 |
| **Net cash (used in)/from investing activities** | | **(19,982)** | 13,363 |
| **Cash flows from financing activities** | | | |
| Interest paid | | **–** | (441) |
| Decrease in bank loan | | **–** | (3,000) |
| **Net cash used in financing activities** | | **–** | (3,441) |
| **Net decrease in cash and cash equivalents** | | **(2,223)** | (14,407) |
| **Effect of foreign exchange rate changes** | | **(124)** | (49) |
| **Cash and cash equivalents at beginning of year** | | **45,658** | 60,114 |
| **Cash and cash equivalents at end of year** | *28* | **43,311** | 45,658 |

# Notes to the Financial Statements

31 December 2005

## 1. GENERAL

Shanghai Jiadoa 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.

The financial statements are presented in Reminbi ("RMB"), which is the same as the functional currency of the Group.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Companies Ordinance.

### (b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation (Continued)

The applicable HKFRSs are set out below and the 2004 financial statements have been restated in accordance with the relevant requirements, where applicable.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share Based Payment |
| HKFRS 3 | Business Combinations |
| HKAS-INT 15 | Operating Leases – Incentives |

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, 38 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the consolidated income statement, balance sheets, and consolidated statement of changes in equity.
- HKAS 2, 8, 16, 21, 28 and 33 affect certain disclosures of the financial statements.
- HKAS 7, 10, 12, 14, 17, 18, 19, 23, 27, 36, 37, 38, HKFRS 2 and HKAS INT-15 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

# Notes to the Financial Statements

31 December 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation (Continued)

#### *HKFRS 3 "Business Combinations"*

*Goodwill*

In previous years, goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

In accordance with the relevant transitional provisions under HKFRS 3 and HKAS 36 "Impairment of assets", the Group has applied the new policy in respect of goodwill prospectively from 1 January 2005. Comparative figures for 2004 have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of goodwill. Goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with HKAS 36.

#### *HKAS 32 "Financial Instruments: Disclosure and Presentation"*

#### *HHAS 39 "Financial Instruments: Recognition and Measurement"*

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

*Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for- sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation (Continued)

*Derecognition*

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005.

### (c) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

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

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

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.

### (d) Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination described above.

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.

### (f) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

### (g) Other intangible assets

*(i) Externally acquired intangible assets*

Externally acquired intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Externally acquired intangible assets are amortised on a straight-line basis over their useful economic lives. The amortisation expense is included in the administrative expenses in the income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Other intangible assets (Continued)

*(ii) Internally generated intangible assets (research and development costs)*

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included in the cost of sales in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

### (h) 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) 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.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses in the income statement.

### (j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

### (k) Financial Instruments

*(i) Financial assets*

Financial assets comprises available-for-sale investments, trade and debtors, amounts due from related parties/associates and cash and bank balances.

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Financial Instruments (Continued)

*(i) Financial assets (Continued)*

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

*(ii) Financial liabilities*

Financial liabilities comprises trade and other creditors and amount due to associates.

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities was incurred. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

# Notes to the Financial Statements

31 December 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Financial Instruments (Continued)

*(iii) Derecognition*

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

### (l) 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.

Tuition fee income is recognised when the related services are rendered.

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

### (m) 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.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (n) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

| | |
|---|---|
| Leasehold improvements | The shorter of the lease terms or $33^1/_3$% |
| Furniture and office equipment | 20% to $33^1/_3$% |
| Motor vehicles | 20% |

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### (o) Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

# Notes to the Financial Statements

31 December 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (p) Leases

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

### (q) Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Reminbi ("RMB") at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

### (r) Government grants

Government grants received are credited to the income statement as other income except for those amounts received for the purchase of property, plant and equipment, which are recorded as deferred income in the balance sheet and amortised over the useful life of the asset.

### (s) 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 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.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (t) 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.

### (u) 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 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

31 December 2005

## 3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of the new HKFRSs will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKAS 19 Amendment | Actuarial gains and losses, Group plans and disclosures |
| HKAS 21 Amendment | Net investment in a foreign operation |
| HKAS 39 Amendment | Cash flow hedge accounting of forecast intragroup transactions |
| HKAS 39 Amendment | The fair value option |
| HKAS 39 & HKFRS 4 Amendments | Financial guarantee contracts |
| HKFRS 7 | Financial instrument: Disclosures |
| HKFRS – Interpretation 4 | Determining whether an arrangement contains a lease |

## 4. TURNOVER

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Turnover represents revenue from development and provision of: | | |
| Business solutions development | **46,385** | 53,628 |
| Application software | **124** | 43 |
| Network and data security products | **1,803** | 717 |
| Sales and distribution of computer and electrical products | **91,184** | 77,881 |
| | **139,496** | 132,269 |

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

## 5. 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 development, application software, network and data security products. |
| Sales of goods: | Sales and distribution of computer and electrical products and accessories. |

Segment information about these business is presented below.

| | Business application solutions | | Sales of goods | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 (restated) | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 (restated) |
| **Segment revenue** | | | | | | |
| Turnover from external customers | **48,312** | 54,388 | **91,184** | 77,881 | **139,496** | 132,269 |
| Other revenue | **–** | 445 | **–** | – | **–** | 445 |
| Total | **48,312** | 54,833 | **91,184** | 77,881 | **139,496** | 132,714 |
| Unallocated other revenue | | | | | **4,062** | 7,256 |
| | | | | | **143,558** | 139,970 |
| **Results** | | | | | | |
| Segment results | **(10,868)** | 7,121 | **1,748** | 293 | **(9,120)** | 7,414 |
| Unallocated operating income and expenses | | | | | **1,336** | (6,337) |
| (Loss)/profit from operations | | | | | **(7,784)** | 1,077 |
| Finance costs | | | | | **–** | (441) |
| Gain on deemed disposal of a subsidiary | **669** | – | **–** | – | **669** | – |
| Share of profits less losses of associates | **(3,291)** | (1,504) | **–** | – | **(3,291)** | (1,504) |
| Tax expense | | | | | **–** | (319) |
| Loss for the year | | | | | **(10,406)** | (1,187) |

# Notes to the Financial Statements

31 December 2005

## 5. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

| | Business application solutions | | Sales of goods | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Assets** | | | | | | |
| Segment assets | **26,421** | 37,092 | **8,503** | 11,612 | **34,924** | 48,704 |
| Interests in associates | **41,025** | 26,256 | **–** | – | **41,025** | 26,256 |
| Unallocated assets | | | | | **84,132** | 79,092 |
| Total assets | | | | | **160,081** | 154,052 |
| **Liabilities** | | | | | | |
| Segment liabilities | **15,680** | 18,469 | **11,785** | 6,971 | **27,465** | 25,440 |
| Unallocated liabilities | | | | | **21,247** | 7,196 |
| Total liabilities | | | | | **48,712** | 32,636 |
| **Other segment information** | | | | | | |
| Capital expenditure incurred during the year | **1,139** | 1,166 | **6** | 3 | | |
| Depreciation | **1,254** | 995 | **64** | 18 | | |
| Increase/(decrease) in impairment loss for debtors | **638** | (12) | **–** | – | | |
| (Reversal of write down)/write down of inventories | **(365)** | 600 | **–** | – | | |

## 5. SEGMENT INFORMATION (Continued)

### Geographical segment

The Group's business is mainly conducted in PRC. However, its subsidiary started business this year and got business in other Asian countries this year. The new business conducted with these customers are mainly software development and support.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | PRC | | Other Asian Countries | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Revenue from external customer | **135,287** | 132,269 | **4,209** | – |
| Segment assets | **160,081** | 154,052 | **–** | – |
| Capital expenditure incurred during the year | **1,145** | 1,169 | **–** | – |

## 6. OTHER REVENUE

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest income | **255** | 723 |
| Dividends from trading of securities | **–** | 39 |
| Government grants *(Note)* | **525** | 845 |
| Tuition fees | **1,493** | 4,673 |
| Rental income | **1,302** | 1,124 |
| Sundry | **487** | 297 |
| | **4,062** | 7,701 |

Note: The Group's government grants are subsidies received for the development of the Group's products.

# Notes to the Financial Statements

31 December 2005

## 7. (LOSS)/PROFIT FROM OPERATIONS

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

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Staff costs (including directors' emoluments) comprises: | | |
| Wages and salaries | **9,723** | 13,340 |
| Contributions to retirement benefit scheme | **839** | 1,225 |
| | **10,562** | 14,565 |
| Auditors' remuneration | **685** | 629 |
| Cost of inventories recognised as an expense | **128,002** | 111,887 |
| Loss on disposal of plant and equipment | **2** | 46 |
| Impairment losses of debtors | **638** | – |
| Write back of impairment losses of debtors | **–** | (12) |

## 8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

### (a) Directors' emoluments

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Details of directors' emoluments are as follows: | | |
| Fees | **–** | – |
| Salaries and other benefits | **150** | 250 |
| Discretionary bonus | **–** | – |
| Contributions to retirement benefit scheme | **–** | – |
| | **150** | 250 |

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

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Executive directors | | |
| Wang Yiming | | |
| Fees | **–** | – |
| Salaries and other benefits | **150** | 250 |
| Discretionary bonus | **–** | – |
| Contributions to retirement benefit scheme | **–** | – |
| | **150** | 250 |

None of the executive directors waive any emoluments for the years ended 31 December 2005 and 2004.

None of the independent non-executive directors received any emoluments for the years ended 31 December 2005 and 2004.

## 8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

### (b) Supervisors' emoluments

| | **2005 RMB'000** | 2004 RMB'000 |
|---|---|---|
| Details of supervisors' emoluments are as follows: | | |
| As supervisors | **–** | – |
| As employees | | |
| – Salaries and other benefits | **72** | 72 |
| – Discretionary bonus | **–** | – |
| – Contributions to retirement benefit scheme | **19** | 19 |
| Salaries and other benefits | **91** | 91 |

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

| | **2005 RMB'000** | 2004 RMB'000 |
|---|---|---|
| Qin Yan | | |
| As supervisor | **–** | – |
| As employee | | |
| – Salaries and other benefits | **72** | 72 |
| – Discretionary bonus | **–** | – |
| – Contributions to retirement benefit scheme | **19** | 19 |
| Salaries and other benefits | **91** | 91 |

### (c) The highest paid individuals

The five highest paid employees of the Group during the year included one (2004: one) director, details of whose emoluments are also set out in the directors' emoluments above. For the years ended 31 December 2005 and 2004, details of the remuneration of the five highest paid individuals are as follows:

| | **2005 RMB'000** | 2004 RMB'000 |
|---|---|---|
| Salaries and other benefits | **650** | 666 |
| Discretionary bonus | **–** | – |
| Contributions to retirement benefit scheme | **84** | 87 |
| Salaries and other benefits | **734** | 753 |

The emoluments of each of the highest paid individuals for the years ended 31 December 2005 and 2004 fell within the band of nil to RMB1,040,000 (equivalent to Hong Kong dollars 1,000,000).

# Notes to the Financial Statements

31 December 2005

## 9. FINANCE COSTS

| | **2005** **RMB'000** | 2004 RMB'000 |
|---|---|---|
| Interest on bank loan and other borrowings wholly repayable within 5 years | – | 441 |

## 10. TAX EXPENSE

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

| | **2005** **RMB'000** | 2004 RMB'000 (restated) |
|---|---|---|
| Current tax – PRC | | |
| – tax for the year | – | (147) |
| Deferred tax | – | (172) |
| Tax expense for the year | – | (319) |

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%.

No provision for EIT has been made as the companies within the Group did not generate any assessable profits in PRC.

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

## 10. TAX EXPENSE (Continued)

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

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % (restated) |
| Loss before tax | **(10,406)** | | (868) | |
| Tax at the PRC statutory tax rate of 33% | **(3,434)** | (33.0) | (286) | (33.0) |
| Tax effect of tax benefits of being a HNTE | **1,056** | 10.1 | (125) | (14.4) |
| Tax effect of non-deductible expenses | **425** | 4.1 | 49 | 5.7 |
| Tax effect of non-taxable revenue | **(595)** | (5.7) | (58) | (6.7) |
| Tax effect of unused tax losses not recognised | **1,536** | 14.8 | 197 | 22.7 |
| Tax effect of non-deductible expenses, non-taxable revenue and/or unused tax losses not recognised for associates, net | **1,086** | 10.4 | 538 | 62.0 |
| Other temporary difference not recognised | **(82)** | (0.8) | – | – |
| Effect of different tax rates of a subsidiary operating in other jurisdiction | **8** | 0.1 | 4 | 0.4 |
| Income tax expense and effective tax rate for the year | **–** | – | 319 | 36.7 |

## 11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a net loss of RMB12,026,000 (2004: RMB1,748,000) which has been dealt with in the financial statements of the Company.

## 12. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to equity holders of the Company of RMB9,691,000 (2004: loss of RMB1,068,000) and on the weighted average number of 480,000,000 shares in issue for the years ended 31 December 2005 and 2004.

Diluted loss per share for the years ended 31 December 2005 and 2004 have not been calculated as there were no dilutive potential shares during the years ended 31 December 2005 and 2004.

# Notes to the Financial Statements

31 December 2005

## 13. PLANT AND EQUIPMENT

**The Group**

| | Leasehold improvements RMB'000 | Furniture and office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2005 | 676 | 4,378 | 1,528 | 6,582 |
| Additions | – | 1,145 | – | 1,145 |
| Disposal | – | (7) | – | (7) |
| Disposal of subsidiary | – | (302) | (460) | (762) |
| **At 31 December 2005** | **676** | **5,214** | **1,068** | **6,958** |
| Accumulated depreciation | | | | |
| At 1 January 2005 | 360 | 2,606 | 645 | 3,611 |
| Charge for the year | 226 | 942 | 150 | 1,318 |
| Eliminated on disposals | – | (4) | – | (4) |
| Disposal of subsidiary | – | (188) | (37) | (225) |
| **At 31 December 2005** | **586** | **3,356** | **758** | **4,700** |
| **Cost** | | | | |
| At 1 January 2004 | 676 | 3,919 | 1,251 | 5,846 |
| Additions | – | 514 | 655 | 1,169 |
| Disposals | – | (55) | (378) | (433) |
| 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 values** | | | | |
| **At 31 December 2005** | **90** | **1,858** | **310** | **2,258** |
| At 31 December 2004 | 316 | 1,772 | 883 | 2,971 |

## 13. PLANT AND EQUIPMENT (Continued)

### The Company

| | Leasehold improvements RMB'000 | Furniture and office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2005 | 676 | 3,086 | 1,037 | 4,799 |
| Additions | – | 1,100 | – | 1,100 |
| **At 31 December 2005** | **676** | **4,186** | **1,037** | **5,899** |
| **Accumulated depreciation** | | | | |
| At 1 January 2005 | 360 | 1,970 | 636 | 2,966 |
| Charge for the year | 226 | 752 | 111 | 1,089 |
| **At 31 December 2005** | **586** | **2,722** | **747** | **4,055** |
| **Cost** | | | | |
| At 1 January 2004 | 676 | 2,789 | 1,112 | 4,577 |
| Additions | – | 297 | 165 | 462 |
| Disposals | – | – | (240) | (240) |
| At 31 December 2004 | 676 | 3,086 | 1,037 | 4,799 |
| **Accumulated depreciation** | | | | |
| At 1 January 2004 | 90 | 1,535 | 773 | 2,398 |
| Charge for the year | 270 | 435 | 93 | 798 |
| Eliminated on disposals | – | – | (230) | (230) |
| At 31 December 2004 | 360 | 1,970 | 636 | 2,966 |
| **Net book values** | | | | |
| **At 31 December 2005** | **90** | **1,464** | **290** | **1,844** |
| At 31 December 2004 | 316 | 1,116 | 401 | 1,833 |

# Notes to the Financial Statements

31 December 2005

## 14. INVESTMENTS IN SUBSIDIARIES

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **17,869** | 18,269 |
| Less: impairment loss | **(4,100)** | (2,000) |
| | **13,769** | 16,269 |

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 2005 | 2004 | Principal activities |
|---|---|---|---|---|---|
| Shanghai Jiaoda Withub Software Company Limited* | The PRC | RMB5,000,000 | 82 | 82 | Development and sale of business solutions and software |
| Shanghai Withub Information and Professional Training School** | The PRC | RMB1,000,000 | 100 (note (i)) | 100 | Provision of tuition and training services |
| Jiaoda Withub (Hong Kong) Limited*** | Hong Kong | HKD12,000,000 | 100 | 100 | Development and sale of business solutions and software |

* private limited liability company (domestic joint equity)

** private unincorporated entity

*** private limited liability company

Note (i): 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.

## 14. INVESTMENTS IN SUBSIDIARIES (Continued)

(ii): In previous year, 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 statement.

In August 2005, Huikang increased its issued capital from RMB1,000,000 to RMB6,000,000 contributed by subscription of capital from a third party. The Group's effective shareholding had been decreased from 40% to 6.67% and ceased to control over more than half of the voting rights. Details of the disposal were disclosed in note 27.

The condensed balance sheets of the School, being one of the consolidated subsidiaries, at 31 December 2005 and 2004 are as follows:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Bank balances | **3** | 261 |
| Current assets other than bank balances | **1,218** | 1,264 |
| | **1,221** | 1,525 |
| Current liabilities | **(230)** | (467) |
| Net assets | **991** | 1,058 |

## 15. INTERESTS IN ASSOCIATES

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **–** | – | **31,035** | 31,035 |
| Share of net assets | **38,326** | 26,181 | **–** | – |
| Goodwill | **2,699** | 75 | **–** | – |
| Less: impairment loss | **–** | – | **(4,000)** | (1,000) |
| | **41,025** | 26,256 | **27,035** | 30,035 |

The summarised financial information in respect of the Group's associates is set out below:

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Total assets | **192,860** | 101,786 |
| Total liabilities | **(93,259)** | (29,490) |
| Net assets | **99,601** | 72,296 |
| Group's share of net assets of associates | **41,025** | 26,256 |
| Revenue | **113,615** | 47,124 |
| Loss for the year | **(12,458)** | (6,331) |
| Group's shares of result of associates for the year | **(3,291)** | (1,504) |

# Notes to the Financial Statements

31 December 2005

## 15. INTERESTS IN ASSOCIATES (Continued)

Particulars of principal associates are as follows:

| Name of associate | Form of business structure | Place of incorporation and operation | Group's effective interest | Proportion of ownership interest attributable to the Company and subsidiaries | Proportion of ownership interest attributable to an associate | Principal activities |
|---|---|---|---|---|---|---|
| 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 |
| 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 |
| Union Genesis Limited | Private limited liability company (joint equity) | British Virgin Islands | 45% | 100% | – | Design, produce and sale of consumer electronics hardware and software |
| C-NOVA Microsystems Limited | Private limited liability company (joint equity) | Hong Kong | 45% | 100% | – | Design, produce and sale of consumer electronics hardware and software |
| C-NOVA Microsystems (Shanghai) Limited | Private limited liability company (joint equity) | The PRC | 45% | 100% | – | Design, produce and sale of consumer electronics hardware and software |

## 16. OTHER INTANGIBLE ASSET

### The Group and the Company

| | RMB'000 |
|---|---|
| **Cost at 1 January 2005 and 31 December 2005** | **6,000** |
| **Accumulated amortisation** | |
| At 1 January 2005 | 1,950 |
| Amortisation for the year | 300 |
| **At 31 December 2005** | **2,250** |
| Cost at 1 January 2004 and 31 December 2004 | 6,000 |
| **Accumulated amortisation** | |
| At 1 January 2004 | 1,650 |
| Amortisation for the year | 300 |
| At 31 December 2004 | 1,950 |
| **Net book values** | |
| **At 31 December 2005** | **3,750** |
| At 31 December 2004 | 4,050 |

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 and grouped under administration expenses on a systematic basis over 20 years.

# Notes to the Financial Statements

31 December 2005

## 17. GOODWILL

| | RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2005 | 230 |
| Opening balance adjustment to eliminate accumulated amortisation | (196) |
| **At 31 December 2005** | **34** |
| **Amortisation and impairment** | |
| At 1 January 2005 | 196 |
| Eliminated against cost at 1 January 2005 | (196) |
| Impairment loss | 34 |
| | 34 |
| Cost | |
| At 1 January 2004 and 31 December 2004 | 230 |
| **Amortisation and impairment** | |
| Balance at 1 January 2004 | 150 |
| Amortisation for the year | 46 |
| Balance at 31 December 2004 | 196 |
| **Net book values** | |
| **At 31 December 2005** | **–** |
| At 31 December 2004 | 34 |

The impairment loss/amortisation was charged to income statements and grouped under administration expenses.

## 18. INVENTORIES

### The Group

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Raw materials | **229** | 896 |
| Work in progress | **4,445** | 4,293 |
| Finished goods | **–** | 1,029 |
| Merchandise for resale | **6,268** | 5,469 |
| | **10,942** | 11,687 |
| Write-down of inventories | **(1,480)** | (1,845) |
| | **9,462** | 9,842 |

Provision made in prior years against the carrying value of merchandise for resale RMB365,000 have been reversed. This reversal arose due to an increase in the estimated net realisable value of certain computer and electrical products as a result of a change in customer preferences.

### The Company

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Raw materials | **229** | 612 |
| Work in progress | **4,445** | 3,200 |
| Finished goods | **–** | 599 |
| Merchandise for resale | **6,263** | 5,461 |
| | **10,937** | 9,872 |
| Write-down of inventories | **(1,480)** | (1,845) |
| | **9,457** | 8,027 |

Provision made in prior years against the carrying value of merchandise for resale RMB365,000 have been reversed. This reversal arose due to an increase in the estimated net realisable value of certain computer and electrical products as a result of a change in customer preferences.

## 19. AVAILABLE FOR SALE INVESTMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2005 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Equity interest in PRC private limited liability companies | **1,766** | 1,500 | **1,780** | 1,500 |
| Other available for sale investments | **150** | 150 | **150** | 150 |
| | **1,916** | 1,650 | **1,930** | 1,650 |

# Notes to the Financial Statements

31 December 2005

## 19. AVAILABLE FOR SALE INVESTMENTS (Continued)

The equity interest in PRC private limited liability companies are not stated at fair value, but at cost less any accumulated impairment losses because it does not have a quoted market price in an active market. The directors consider that the fair value cannot be measured reliably as the variability of the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

Other available for sale investments represents transferable membership issued by the Shanghai Technology Stock Exchange for the right to trade in technology know-how. The market for such membership is not publicly quoted and therefore the fair value of the assets cannot be measured reliably.

## 20. TRADE DEBTORS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade debtors | **21,937** | 33,474 | **21,383** | 31,674 |
| Impairment loss | **(707)** | (476) | **(668)** | (438) |
| | **21,230** | 32,998 | **20,715** | 31,236 |

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 | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Aged: | | | | |
| 0 to 90 days | **15,926** | 24,848 | **15,824** | 23,681 |
| 91 to 180 days | **258** | 1,003 | **258** | 1,003 |
| 181 to 365 days | **816** | 3,844 | **753** | 3,657 |
| Exceeding 365 days | **4,937** | 3,779 | **4,548** | 3,333 |
| | **21,937** | 33,474 | **21,383** | 31,674 |
| Impairment loss | **(707)** | (476) | **(668)** | (438) |
| | **21,230** | 32,998 | **20,715** | 31,236 |

## 21. AMOUNTS DUE FROM A SUBSIDIARY

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Amount due from a subsidiary | **3,900** | 3,600 |
| Less: Impairment loss | **(3,900)** | – |
| | **–** | 3,600 |

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

## 22. TRADE CREDITORS AND BILLS PAYABLE

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Aged: | | | | |
| 0 to 90 days | **7,815** | 4,791 | **7,756** | 4,671 |
| 91 to 180 days | **–** | 740 | **–** | 12 |
| 181 to 365 days | **129** | 476 | **–** | 343 |
| Exceeding 365 days | **3,967** | 894 | **3,829** | 536 |
| | **11,911** | 6,901 | **11,585** | 5,562 |

## 23. OTHER CREDITORS AND ACCRUED EXPENSES

Included in the other creditors and accrued expenses are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **'000** | '000 | **'000** | '000 |
| US dollars | **82** | – | **–** | – |

## 24. DEFERRED TAX ASSETS

**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:

| | Write down of inventories RMB'000 | Impairment loss of debtors RMB'000 | Other temporary differences RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2004 | 187 | 292 | 177 | 656 |
| Credited/(charged) to income statement | 231 | (141) | (262) | (172) |
| At 31 December 2004 | 418 | 151 | (85) | 484 |
| Credited/(charged) to income statement | (97) | 45 | 52 | – |
| **At 31 December 2005** | **321** | **196** | **(33)** | **484** |

The Group and the Company have not recognised deferred tax assets in respect of unexpired tax losses carried forward of RMB14,317,000 and RMB6,119,000 (2004: RMB4,222,000, nil) respectively, due to unpredictability of future profit streams.

# Notes to the Financial Statements

31 December 2005

## 25. SHARE CAPITAL

| | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Registered issued and fully paid: | | |
| 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.

No option was granted by the Company since adoption of the Share Option Scheme in July 2002.

## 26. RESERVES

| | Share premium RMB'000 | Capital reserves RMB'000 (note (a)) | Statutory reserve RMB'000 (note (b)) | Foreign exchange reserve RMB'000 | Retained profits/ (accumulated losses) RMB'000 (note (c)) | Total RMB'000 |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **2005** | | | | | | |
| At 31 December 2004 | 61,068 | 16,000 | 223 | (49) | (3,936) | 73,306 |
| Loss for the year attributable to equity holders of the Company | – | – | – | – | (9,691) | (9,691) |
| Translation of financial statements of an overseas subsidiary | – | – | – | 93 | – | 93 |
| Translation of financial statements of overseas associates | – | – | – | (339) | – | (339) |
| **At 31 December 2005** | **61,068** | **16,000** | **223** | **(295)** | **(13,627)** | **63,369** |
| Attributable to: | | | | | | |
| The non-profit making subsidiary | – | – | – | – | (9) | (9) |
| The Company and other subsidiaries | 61,068 | 16,000 | 223 | 44 | (5,561) | 71,774 |
| Associates | – | – | – | (339) | (8,057) | (8,396) |
| **At 31 December 2005** | **61,068** | **16,000** | **223** | **(295)** | **(13,627)** | **63,369** |

## 26. RESERVES (Continued)

| | Share premium RMB'000 | Capital reserves RMB'000 (note (a)) | Statutory reserve RMB'000 (note (b)) | Foreign exchange reserve RMB'000 | Retained profits/ (accumulated losses) RMB'000 (note (c)) | Total RMB'000 |
|---|---|---|---|---|---|---|
| 2004 | | | | | | |
| At 31 December 2003 | 61,068 | 16,000 | 223 | – | (2,868) | 74,423 |
| Loss for the year attributable to equity holders of the Company | – | – | – | – | (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 |

| | 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 |
|---|---|---|---|---|---|
| **The Company** | | | | | |
| **2005** | | | | | |
| At 31 December 2004 | 61,068 | 16,000 | 223 | 2,276 | 79,567 |
| Loss for the year | – | – | – | (12,026) | (12,026) |
| **At 31 December 2005** | **61,068** | **16,000** | **223** | **(9,750)** | **67,541** |
| 2004 | | | | | |
| At 31 December 2003 | 61,068 | 16,000 | 223 | 4,024 | 81,315 |
| Loss for the year | – | – | – | (1,748) | (1,748) |
| At 31 December 2004 | 61,068 | 16,000 | 223 | 2,276 | 79,567 |

# Notes to the Financial Statements

31 December 2005

## 26. RESERVES (Continued)

### (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 shareholders' 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.

## 27. DEEMED DISPOSAL OF A SUBSIDIARY

In previous year, 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 statement.

In August 2005, Huikang increased its issued capital from RMB1,000,000 to RMB6,000,000 contributed by subscription of capital from a third party. The Group's effective shareholding had been decreased from 40% to 6.67% and ceased to control over more than half of the voting rights. Details of the disposal were disclosed in nose 27.

The net (liabilities)/assets of Huikang at the date of disposal and at 31 December 2004 were as follows:

| | **04/08/2005** | 31/12/2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Net assets disposed of** | | |
| Plant and equipment | **537** | 597 |
| Inventories | **940** | 1,049 |
| Trade debtors | **238** | 250 |
| Deposits, prepayments and other debtors | **992** | 533 |
| Cash and bank balance | **439** | 322 |
| Trade creditors | **(390)** | (463) |
| Other creditors and accrued expenses | **(3,764)** | (2,170) |
| Net (liabilities)/assets | **(1,008)** | 118 |
| Minority interest | **605** | |
| Gain on deemed disposal | **669** | |
| Carrying value of investment in Huikang (classified as "available for sale investment" (note 19)) | **266** | |
| **Net cash outflow arising on disposal** | | |
| Cash and bank balances disposed of | **(439)** | |

# Notes to the Financial Statements

31 December 2005

## 28. CASH AND CASH EQUIVALENTS

| | The Group | |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **43,311** | 45,658 |

Included in the cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **'000** | '000 | **'000** | '000 |
| US dollars | **306** | – | **–** | – |
| Hong Kong dollars | **3,600** | 4,945 | **3,600** | 4,945 |

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to one or more of the following financial risks:

- Fair value or cash flow interest rate risk
- Foreign currency risk
- Liquidity risk
- Market price risk
- Credit risk

The Group does not hold or issue any financial derivatives for trading purpose nor use any derivatives or other instrument for hedging purpose.

### Fair value and cash flow interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to fair value and cash flow interest risks is minimal as the Group does not have significant long term financial assets and liabilities.

### Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movement in exchange rate relating to investment and transaction denominated in foreign currencies. The Group's monetary assets and transactions are denominated in RMB, HKD and USD. Though the exchange rates between RMB, HKD and USD are not pegged, there are little fluctuation of exchange rates among RMB, HKD and USD. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk

The purpose of liquidity management is to ensure sufficient cash flow to meet all financial commitment and to capitalize on opportunities of business expansion. This includes the Group's ability to repay borrowing as they mature, and to make new loans and investment as opportunities arise. Liquidity is managed on a daily basis by the management which ensure the Group has adequate liquidity for all operation and monitoring local and international market for the adequacy of funding and liquidity. The Group manage liquidity risk by holding sufficient liquid assets such as cash to ensure short term funding requirement are covered with prudent limit.

### Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. Impairment losses are made when losses incurred on balance sheet date. The Group limits its exposure to credit risk by vigorously selecting counterpart. The Group mitigates its exposure to risk relating to accounts receivable by dealing with selected government agencies with sound financial standing. And certain new customers were required to place cash deposits with the Group to mitigate the maximum exposure to credit risk.

### Fair value

All financial instruments are carried at amount not materially different from their fair values.

## 30. RETIREMENT BENEFITS

As stipulated by PRC regulations, the Company and it subsidiaries maintain defined contribution retirement plans for all of its employees. The Group contributes to a State-managed retirement plan at approximately 22% 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 RMB839,000 (2004: RMB1,225,000).

## 31. 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 RMB1,100,000.

| | **2005**<br>**RMB'000** | 2004<br>RMB'000 |
|---|---|---|
| Rentals paid under operating leases | | |
| Land and buildings | **2,521** | 2,632 |

# Notes to the Financial Statements

31 December 2005

## 31. LEASE ARRANGEMENTS (Continued)

As at 31 December 2005, the future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year | **372** | 464 | **372** | 410 |
| After 1 year but within 5 years | **–** | – | **–** | – |
| After 5 years | **–** | – | **–** | – |
| | **372** | 464 | **372** | 410 |

## 32. CONNECTED AND RELATED PARTY TRANSACTIONS

(i) Name and relationship of related parties

| **Name of related parties** | **Relationship** |
|---|---|
| Shanghai Jiao Tong University | Shareholder of Shanghai Jiaoda Science and Technology Park Company Limited |
| Shanghai Jiaoda Science and Technology Park Company Limited | Shareholder of the Company |
| Shanghai Jiao Tong University Education (Group) Company Limited | Subsidiary of Shanghai Jiao Tong University |

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

| | **2005** | 2004 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| (a) Project income from related parties – Shanghai Ton Tron information Technology | **1,038** | – |
| (b) Consultancy fee charged by Shanghai Jiao TongUniversity Education (Group) Company Limited | **–** | 300 |

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

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

## 33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 20 March 2006.

# Five-year Financial Summary

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2005** **RMB'000** | 2004 (restated) RMB'000 | 2003 (restated) RMB'000 | 2002 (restated) RMB'000 | 2001 (restated) RMB'000 |
| Turnover | **139,496** | 132,269 | 148,821 | 88,732 | 102,430 |
| (Loss)/profit before taxation | **(10,406)** | (868) | 1,265 | 5,403 | 3,240 |
| Taxation | **–** | (319) | 168 | (722) | (1,010) |
| (Loss)/profit for the year | **(10,406)** | (1,187) | 1,433 | 4,681 | 2,230 |
| Attributable to: | | | | | |
| – Equity holders of the Company | **(9,691)** | (1,068) | 1,810 | 4,163 | 2,640 |
| – Minority interests | **(715)** | (119) | (377) | 518 | (410) |
| Dividends | **–** | – | – | – | – |
| (Loss)/earnings per share (in RMB) | | | | | |
| – Basic | **(0.0202)** | (0.0022) | 0.0038 | 0.0101 | 0.0081 |
| – Diluted | **N/A** | N/A | N/A | N/A | N/A |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2005** **RMB'000** | 2004 (restated) RMB'000 | 2003 (restated) RMB'000 | 2002 (restated) RMB'000 | 2001 (restated) RMB'000 |
| Non-current assets | **49,433** | 35,445 | 36,810 | 26,495 | 16,908 |
| Current assets | **110,648** | 118,607 | 130,077 | 124,661 | 40,529 |
| Total assets | **160,081** | 154,052 | 166,887 | 151,156 | 57,437 |
| Current liabilities | **48,712** | 32,636 | 44,235 | 29,937 | 19,232 |
| Total net assets | **111,369** | 121,416 | 122,652 | 121,219 | 38,205 |
| Share capital | **48,000** | 48,000 | 48,000 | 48,000 | 36,000 |
| Reserves | **63,369** | 73,306 | 74,423 | 72,613 | 2,117 |
| | **111,369** | 121,306 | 122,423 | 120,613 | 38,117 |
| Minority interest | **–** | 110 | 229 | 606 | 88 |
| | **111,369** | 121,416 | 122,652 | 121,219 | 38,205 |

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the 2005 annual general meeting ("AGM") of Shanghai Jiaoda Withub Information Industrial Company Limited (the "Company") will be held at Conference Room, 5th Floor, Tianping Hotel, 185 Tianping Road, Shanghai, the People's Republic of China on Tuesday, 30 May 2006 at 10:00 a.m. for the following purpose:

1. To consider and approve Report of the Directors for the year 2005;

2. To consider and approve Report of the Supervisory Committee for the year 2005;

3. To consider and approve the audited consolidated financial statements for the year ended 31 December 2005;

4. To consider and approve the dividend distribution proposal for the year 2005;

5. To consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year 2005;

6. To consider and approve the proposal of re-appointing BDO McCabe Lo Limited and BDO Shanghai Zhonghua Certified Public Accountants as the Company's international and domestic auditors respectively for the year 2006 and authorise the directors of the Company to fix their remuneration;

7. To consider and approve the remuneration proposals for directors and supervisors of the Company for the year 2006 and to authorise the directors of the Company to fix their remuneration; and

8. To consider and approve the following resolution as a special resolution:

"(a) **THAT** subject to the limitation imposed by paragraphs (c) and (d) below and in compliance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Companies Law of the People's Republic of China ("PRC"), as well as other applicable laws and regulations, in each case as amended from time to time, the board ("Board") of directors of the Company be unconditionally authorised to exercise, once or more than once, all the powers of the Company to allot and issue domestic shares ("Domestic Shares") and/or overseas listed foreign shares ("H Shares") of the Company during the Relevant Period (as defined below) and in accordance with the terms and conditions determined by the Board. In exercise the power to allot and issue Domestic Shares and/or H Shares, the authority of the Board shall include (but not limited) to the following:

(i) to determine the amount of Domestic Shares and/or H Shares to be allotted;

(ii) to determine the issue price of the new Domestic Shares and/or H Shares;

# Notice of Annual General Meeting

(iii) to determine the date(s) on which the issue of new Domestic Shares and/or H Shares is/ are to be commence and close;

(iv) to determined the number of new Domestic Shares and/or H Shares, if applicable, to be issued to the existing holders of Domestic Shares and/or H Shares;

(v) to make or grant an offer, agreement and option necessary for the exercise of such powers; and

(vi) where prohibited and required by foreign laws or regulations, or by other reasons which in the opinion of the Board are appropriate, the offer of subscription for and issue of shares to holders of H Shares shall exclude shareholders residing in the PRC or the Special Administration Region of Hong Kong or the PRC ("Hong Kong") or the offer of subscription for and issue of shares to holders of Domestic Shares shall exclude shareholders residing outside the PRC or Hong Kong;

(b) Upon the exercise of the powers granted to the Board in paragraph (a) the Board may during the Relevant Period (as defined below) make and grant offers, agreements or options which might require the Domestic Shares and/or H Shares in relation to the exercise of such powers may have to be allotted and issued after expiration of the Relevant Period (as defined below);

(c) the aggregate number of Domestic Shares and H Shares to be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or other arrangement) by the Board pursuant to the authority given under paragraph (a) above, excluding any shares allotted pursuant to the Company Law of the PRC and the articles of association of the Company, shall not exceed (i) 20 per cent. of the number of the Domestic Shares in issue; and (ii) 20 per cent. of the number of the H Shares in issue, in each case as at the date of passing this resolution;

(d) upon exercising the powers mentioned in paragraph (a) above, the Board shall (i) comply with the Company Law of the PRC, other applicable laws and regulations and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (in each case as amended from time to time), and (ii) be approved by the China Securities Regulatory Commission and the relevant authorities of the PRC;

(e) for the purpose of this resolution, "Relevant Period" means the period from the date upon which this resolution is passed until whichever is the earlier of:

(i) the conclusion of the Company's next annual general meeting; or

(ii) the date on which the authority given under this resolution is revoked or varied by a special resolution of the Company in general meeting;

# Notice of Annual General Meeting

(f) with approval from the relevant authorities and pursuant to the exercise of the powers in paragraph (a) above in accordance with the Company Law of the PRC and other laws and regulations, the Board be authorised to increase the registered capital of the Company, the increased amount of which shall be equal to the corresponding amount of the relevant Domestic Shares and/or H Shares allotted pursuant to the exercise of such powers as mentioned in paragraph (a) above, but the registered capital of the Company shall not exceed 120 per cent. of the amount of registered capital as at the date of passing of this resolution;

(g) the Board be authorised to make any necessary amendments as it considers appropriate in the articles of association of the Company, so as to reflect changes in the structure of capital of the Company pursuant to the exercise of such powers in paragraph (a) above and in case of issue of new H Shares, subject to the granting by the Listing Committee of the Stock Exchange for listing of and permission to deal in the H Shares in the share capital of the Company proposed to be issued by the Company and the approval by the China Securities Regulatory Commission for the issue of such shares."

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

Shanghai, the PRC, 31 March 2006

Notes:

1. The register of members of the Company will be closed from 28 April 2006 to 30 May 2006 (both days inclusive), during which no transfer of shares will be effected. The holders of shares whose name appears on the register of members of the Company at 4:00 p.m. on 27 April 2006 will be entitled to attend and vote at the AGM. In order to qualify for attendance at the above meeting, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, Union Registrars Limited at 311-312 Two Exchange Square, Central, Hong Kong, no later than 4:00 p.m. on 27 April 2006.

2. Any holder of H shares and domestic shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the AGM on his behalf. A proxy needs not be a holder of H shares and domestic shares of the Company.

3. In order to be valid, the voting proxy form for the AGM shall be signed by the appointer or his attorney duly authorised in writing. If the appointer is a legal person, then the form shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. If the form is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the form is signed shall be notarised. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney must be delivered to the Company's H shares registrar, Union Registrars Limited at 311-312 Two Exchange Square, Central, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.

4. Holders of H shares and domestic shares who intend to attend the AGM should notify in writing of their attendance by sending such to the Company by hand, post or fax on or before 10 May 2006. A failure to return the notice of attendance may result in an adjournment of the AGM, if the number of shares carrying the right to vote represented by the shareholders proposing to attend such meeting by the notice of attendance does not reach more than half of the total number of shares of the Company carrying the right to vote at the meeting.

5. The AGM is expected to take not more than one day. Shareholders who attend shall bear their own traveling and accommodation expenses.

6. Principal place of business in the PRC and the contact details of the Company are as follows:

   7th Floor, Withub Technology Building, 336 Caoxi Bei Road, Shanghai, the PRC Fax No. (86) (021) 64272140