青鸟环宇
JADE BIRD UNIVERSAL

Annual Report 2005 年報

北京北大青鳥環宇科技股份有限公司
Beijing Beida Jade Bird Universal Sci-Tech Company Limited

(Stock code 股份代號: 8095)

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

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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 of the Stock Exchange 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 annual 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 annual report.

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

Contents

Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("the Company") was incorporated in the People's Republic of China (the "PRC") on 29 March 2000 as a Sino-foreign joint stock company with limited liability under the PRC Company Law. The Company was listed on the Growth Enterprise Market ("GEM") on 27 July 2000 and was the first H Share company listed on GEM. (Stock Code: 8095)

The Company is one of the leading software developers and integrated circuit designers in the PRC with expertise in developing software applications and designing integrated circuits for embedded system products.

The Company and its subsidiaries ("the Group") are engaged in the research, development, manufacturing, marketing, and sale of embedded system products including, network security products, wireless fire alarm systems, application specific integrated circuits, global positioning system application systems, smart card application systems, remote automatic meter-reading systems and related products. The Group is also engaged in the sales of computer products and provision of total solutions services through the applications of its existing embedded system products. In addition, the Group is also engaged in the property development activities after acquiring an associate in 2005.

Financial Highlights

RMB'000	**2005**	2004	2003	2002	2001
Revenue	**143,733**	130,503	199,740	250,463	124,617
Investment income, other revenue and gains	**4,334**	289,214	–	–	–
Operating expenses	**(190,196)**	(180,859)	(185,305)	(188,155)	(90,346)
Operating profit/(loss)	**(42,129)**	243,179	16,312	63,568	35,531
Profit/(Loss) before interest, tax, depreciation, amortization, impairment of goodwill and minority interest	**(37,948)**	255,811	25,745	72,681	40,641
Net profit/(loss) from ordinary activities attributable to shareholders	**(59,843)**	234,185	7,136	42,646	37,510
Earnings/(Loss) per share – basic *(RMB cents)*	**(5.1)**	20.4	0.7	4.4	3.9
Dividend per share – *(RMB cents)*	**N/A**	1	N/A	N/A	0.5
Total assets	**1,134,797**	1,188,482	995,055	877,955	831,372
Total liabilities	**317,379**	366,614	454,757	427,373	425,817
Minority interests	**1,708**	3,470	6,131	8,759	1,558
Shareholders' equity	**815,710**	818,398	534,167	441,823	403,997

EXECUTIVE DIRECTORS

Mr. Xu Zhen Dong *Chairman*
Mr. Xu Zhi Xiang *President*
Mr. Zhang Wan Zhong

NON-EXECUTIVE DIRECTORS

Mr. Lo Lin Shing, Simon
Mr. Liu Yong Jin
Mr. Hao Yi Long
Mr. Li Li Xin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Chao Yong
Prof. Nan Xiang Hao
Prof. Chin Man Chung, Ambrose

SUPERVISORS

Mr. Zhang Yong Li
Mr. Du Hong
Ms. Lu Qing
Mr. Li De Yong
Ms. Dong Xiao Qing

FINANCIAL CONTROLLER & COMPANY SECRETARY

Mr. Wong Tak Chuen, *FCPA, FCCA*

HONG KONG SHARE REGISTRAR & TRANSFER OFFICE

Hong Kong Registrars Limited
46th Floor
Hopewell Centre
183 Queen's Road East
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AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

I would like to present hereby on behalf of the board of directors (the "Board") of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") the 2005 annual report of the Company and its subsidiaries (collectively referred to as the "Group").

During the year, the Group achieved a growth in turnover of 10.1% from RMB131 million in last year to RMB144 million. However, as the information technology ("IT") market in the People's Republic of China (the "PRC") is still very competitive, the Group recorded which was loss for the year of RMB59 million; despite the fact that the Group recorded a huge profit of RMB234 million in 2004, which was derived substantially from the partial disposal of the Group's long term investment in Semiconductor Manufacturing International Corporation ("SMIC") in March 2004. SMIC is listed on the Main Board of the Hong Kong Stock Exchange and principally engaged in the semiconductor business in the PRC. After such disposal, the Group is still holding approximately 2.1% of the issued share capital of SMIC.

To meet this challenge, the Group continues to rationalise the operational structure of the different segments of the IT business. After scaling down of the application specific integrated circuits operations by disposing of the relevant subsidiary in late 2004, the Group also disposed of another subsidiary engaged in the RMR business in late 2005. The Board believes that the effect of these strategic adjustments in operations of the Group would only bring a temporary pain which would lead to a short-term decline of the Groups' operating results in the IT sector. With the wireless fire alarm systems and the network security products (especially the network management products continuously rolling out by our research department), the Directors expect that the Group would resume the right track in its IT sector performance and the related results are expected to be better than before.

Given the stiff competition in the IT market in the PRC, the Board will focus in allocating more resources on the property development business in Beijing, the PRC. The Group had successfully acquired its 44% equity interest in a company engaged in the development of a parcel of land in the city centre of Beijing into a transportation terminal and residential and commercial complex. The development is one of the 2008 Olympic Games projects supported by the municipal government in Beijing. Fueled by the expected prosperous property market in Beijing upon approaching the 2008 Olympic Games, the Board is confident that exploring the property business would turn the Group's future performance into a new era. This scarce opportunity of building a large scale transportation hub property project with huge future commuter traffic shuttled through the express train connecting from the Capital Airport and downtown Beijing would justify the tremendous efforts spent by the Board in the year under review. This transformation of the Group's asset portfolio would, in the opinion of the Board, strengthen its core competitive edge and thus improve the rate of return of the Group's assets.

Last but not least, on behalf of the Board and the management, I would like to take this opportunity to express my heartfelt gratitude to our operation partners, dedicated staff and shareholders for their support in the past year.

Xu Zhen Dong
Chairman

Beijing, the PRC
11 May 2006

FINANCIAL REVIEW

Turnover

The audited consolidated turnover of the Group for the year ended 31 December 2005 amounted to RMB143,733,000 (2004 – RMB130,503,000).

The increase in turnover by 10.1% was primarily due to a substantial increase in the sale of computer products of RMB44.1 million to RMB95.0 million from RMB50.9 million in last year offset by a significant reduction in the sale of embedded systems and related products of RMB29.7 million to RMB47.5 million from RMB77.2 million in last year. The substantial growth of the sale of the computer product was brought by strengthening of the procurement team by adding experienced staff in securing new orders for distributing an international well-known brand of computer products in the PRC. On the contrary, the drop of the sale of embedded systems were mainly caused by the Group's disposal of a subsidiary engaged in integrated circuit business in late 2004. For the year ended 31 December 2005, the turnover from the sales of embedded system products and related products, sales of computer products and total solution services were approximately 33%, 66% and 1% respectively as compared to the sales mix of 59%, 39% and 2% respectively in the last year.

Operating Loss

The operating loss of the Group for the year ended 31 December 2005 amounted to RMB42,129,000 (2004 – operating profit of RMB243,179,000). The downturn was mainly due to the recording of the investment income of RMB289,214,000 on the partial disposal of the Group's equity interest in Semiconductor Manufacturing International Corporation ("SMIC") in March 2004.

Excluding the effect of the above-mentioned profit on disposal of SMIC in 2004, the adjusted operating loss in last year became RMB46.0 million. As compared with the operating loss of RMB42.1 million for the year under review, there was in fact a minor decrease of RMB3.9 million. However, there are some major items attributable to such net changes, namely (i) the increase in advertising and promotion costs of RMB6.0 million to RMB10.5 million from RMB4.5 million in last year; (ii) the decrease in provisions for doubtful debts, net of RMB12.6 million to RMB21.9 million from RMB34.5 million in last year; and (iii) the decrease, in aggregate, of RMB8.5 million to RMB3.9 million from RMB12.4 million in last year, in respect of the depreciation of property, plant and equipment, amortization and impairment of goodwill.

Regarding the gross margin aspect, WFAS was operating at a slight drop of gross margin from 39.4% in last year to 36.1% for the year. WFAS also attained a lower turnover of RMB39.4 million as compared to the RMB44.3 million in last year, which is due to the production haul upon the removal to the new constructed plant during the year. Although the sale of computers experienced a significant growth in turnover, its gross margin was very slim at 1.7% which is trivial profit contributor to the Group's operations as compared to WFAS's. The segment of the Computer even, alternatively, recorded a loss segment results of RMB3.8 million as there were significant increases in both the advertising and promotion costs, as well as provisions for doubtful debts, net.

Finance Cost

The interest expense increased substantially by RMB7.8 million from RMB11.3 million in 2004 to RMB19.1 million. It was mainly due to the rise of market interest rate of the US dollar bank loan during the year.

Loss Attributable to Equity holders of the Parent

The loss attributable to equity holders of the parent and loss per share of the Group for the year ended 31 December 2005 were RMB59,843,000 (2004 – profit of RMB234,185,000) and RMB5.1 cents (2004 – RMB20.4 cents) respectively.

Liquidity and Financial Resources

The Group has financed its operation mainly by equity, funds generated from operating activities and bank loans.

At 31 December 2005, the Group had a total assets of RMB1,134.8 million which were financed by liabilities of RMB317.4 million, minority interests of RMB1.7 million and equity of RMB815.7 million. The Group's net asset value per share amounted to RMB0.69 at 31 December 2005.

As at 31 December 2005, the Group had cash and cash equivalent of RMB185.6 million and USD short term bank loans totaling RMB234.0 million (USD29.0 million) and long term bank loans of RMB20 million. The aforesaid USD short term bank loans were secured by the pledge of the Group's investment in SMIC and guaranteed by a shareholder of the Company. The long term bank loans were secured by charges over certain of the Group's property, plant and equipment and land use rights with a total net book value of approximately RMB15.0 million at 31 December 2005.

Other Financial Measures

As at 31 December 2005, the Group had a gearing ratio (the ratio of total borrowings to total equity) and a ratio of current liabilities to total assets of 31% and 26%, respectively.

The Group did not have any material capital commitments as at 31 December 2005 (2004: RMB2,461,000).

As at 31 December 2005, the Group had contingent liabilities as more particularly set out in note 32 to the financial statements.

BUSINESS REVIEW

Network Security System

During the year, the Group completed the research and development of snmp v3 proxy technology and access control technology on week basis and time basis and is conducting research and development of access control technology on MAC basis. At the same time, the Group has completed the research and development of the following products: CIF/DOM firewall products and Unified Threat Management (UTM) Platform products. The Group has completed the production of 201 units of JB-FW1/100 and 17 units of JB-FW1/1000 for the year.

During the year, Wuhan Beida Jade Bird Netsoft Company Limited ("Wuhan Netsoft"), a subsidiary of the Company, has completed the research and development of the "Ezsydesk" desktop management system and is conducting the asset management technology. Wuhan Netsoft completed the research and development of the network management platform software NetsureExpert5.3.0.1 version (upgraded version) and is conducting research and development of NetsureExpert5.3.1 version and asset management products. During the year, the major projects completed by the Group included the Langfang Electric Company, Telecommunication Centre of The Ministry of Public Security of The PRC, Binzhou International Exhibition Centre. During the year, the Group has also signed up the following projects: Local Tax Bureau in Handan, Ministry of Public Security in Weihai, Provincial Tax Bureau of Jiangxi Province, Beijing Anruan Tiandi Technology Ltd. and the sales offices in Dailian and Chongqing of SINOPEC.

For the year ended 31 December 2005, the turnover and segment loss incurred by the network security system products were RMB8,415,000 (2004: 9,430,000) and RMB13,569,000 (2004: 4,325,000) respectively.

Wireless Fire Alarm System

During the year, the Group had completed the research and development of the Two Systems Special Lines Control Reply Technology technology and is conducting research and development of Alarm Bus Mixedit technology. At the same time, the Group has completed the research and development of the following products: non-address temperature detector and conducting research and development of the control software for infra-red light detector v4.0 version.

During the year, the major projects completed by the Group included the Fortune Centre in Beijing of Hainan Daniao Fire Electronic Ltd, Wanzhou District Government Administration Building in Nanjing and Qiaonan Market Project in Hunan, both of Nanjing Fire Equipment Ltd. During the year, the Group has also signed up the following projects: Electronic & Industry Calibration Institute of Huaxia Fire Protection (Group) Ltd. and Chaoyang District Dongba Prison Project in Beijing of Beijing Yanghong Xinan Fire Equipment Ltd.

For the year ended 31 December 2005, the turnover and segment profit contributed from the wireless fire alarm system products were RMB39,377,000 (2004: RMB44,244,000) and RMB1,680,000 (2004: RMB7,302,000) respectively.

Computer products

The significant rise in sales of computer products was predominantly because of the strengthening of the procurement team by recruiting experienced staff in securing new orders for distributing an international well-known brand of computer products in the PRC.

For the year ended 31 December 2005, the turnover and loss contributed by the sale of computer products were RMB95,045,000 and RMB3,759,000 respectively.

Semiconductor Manufacturing International Corporation ("SMIC")

In 2005, SMIC continued to grow its business despite a slowdown in the semiconductor industry in the early part of the year. SMIC seek to maintain its leadership position in the semiconductor industry in the PRC by exploiting its first mover advantage to capture the growing PRC integrated circuit industry.

SMIC reported an increase in capacity to 152,219 8-inch equivalent wafers per month at the end of 2005 and utilization rate to 93% in the fourth quarter of 2005.

On the technology front, SMIC is developing its 65 nanometer technology with one of the top fables companies in the world. It hopes to produce engineering samples by the end of 2006.

Marketing Activities

In November 2005, the Group participated in the exhibition for the fire protection and security technology equipment conducted by Shanghai Fire Protection Bureau.

Government Approval and Awards

In 2005, Wuhan Netsoft was awarded "The Highest Potential Innovative Information Technology Enterprise". At the same time, Wuhan Netsoft's "NetsureXpert" product was awarded the "National Key New Product Certificate" jointly issued by Ministry of Science and Technology, Ministry of Commerce, State Environment Protection Administration and Quality Surveillance Examination Quarantine Bureau.

Staff

At present, the Group has approximately 176 (2004 – 225) employees, of which 5 possess doctorate degree, 28 possess master degree and 109 possess bachelor degree. Under the Group's existing organization structure, the research, development and technical support team has over 71 members, while the marketing and sales team has 35 members.

EXECUTIVE DIRECTORS

Mr. Xu Zhen Dong, aged 42, is an executive Director and the Chairman of the board of Directors of the Company. Mr. Xu is responsible for the Company's overall strategic planning, corporate formulation and financial strategies. In 1987, Mr. Xu graduated from the Computer Science and Technology Department of Peking University. Mr. Xu is the director and general manager of Beijing Beida Jade Bird Limited and the chairman of the board of Shenzhen Macat Optics and Electronics Company Limited, Beijing Beida Culture Development Company Limited and Beijing Chenjian Donghua Real Estate Development Company Limited.

Mr. Xu Zhi Xiang, aged 41, is an executive Director and the president of the Company. He is responsible for the Company's sales and marketing in the PRC. Mr. Xu graduated from Peking University with a bachelor degree in computer science and technology specialising in software and subsequently obtained a master degree in software engineering and computer science from Software Research Centre of the Science Institute of the PRC. Mr. Xu is also the chairman of the board of Beijing Tianqiao Beida Jade Bird Company Limited and Wuhan Beida Jade Bird Netsoft Company Limited, the director and general manager of Beijing Tianqiao Beida Jade Bird Commercial Information System Company Limited, the director of Shenzhen Macat Optics and Electronics Company Limited and a Director of Beijing Chenjian Donghua Real Estate Development Company Limited.

Mr. Zhang Wan Zhong, aged 43, is an executive Director and vice president of the Company. He is primarily responsible for the overall administration, corporate matters and public relations of the Company. Mr. Zhang graduated from Peking University with a master degree in science. Mr. Zhang held various positions in the administrative arm of Peking University including the professor of the Remote Sensing and Geographic Information System Department of Peking University which was responsible for the State's focal science and technology project relating to key problem solving. Mr. Zhang is also a Director of Beijing Chenjian Donghua Real Estate Development Company Limited, the vice president of Beijing Beida Jade Bird Limited, Beijing Beida Education Management Company Limited and Beijing Beida Education Investment Company Limited.

NON-EXECUTIVE DIRECTORS

Mr. Lo Lin Shing, Simon, aged 50, is a non-executive Director of the Company. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. Mr. Lo is the Chairman of New World Cyberbase Limited and the deputy chairman of Tai Fook Securities Group Limited. He is also an executive director of International Entertainment Corporation and a non-executive director of Cheung Tai Hong Holdings Limited and New World Mobile Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. Liu Yong Jin, aged 58, graduated from the Department of Mathematics of Peking University majoring in computing mathematics and is a researcher and senior engineer of Peking University. Mr. Liu has participated in certain national key scientific and technology projects and has been awarded the second prize in advancement of technology of Peking University and the special prize in science of the former State Ministry of Electronics Industry. Mr. Liu is the Vice President of Beijing Beida Jade Bird Company Limited responsible for human resources, administration and management of business etc.

Mr. Hao Yi Long, aged 42, graduated from the Faculty of Computer of Peking University with a master's degree majoring in microelectronics and is working with Peking University. Mr. Hao is the chairman of the board of Beijing Beida Yu Huan Microelectronics System Engineering Company, the deputy director of the Institute of Microelectronics of Peking University and a committee member of the Sixth Session of China Electronics and Semiconductor and System Integration Technology Sub-Committee. Mr. Hao has published over 40 theses and acquired two State patents. Mr. Hao's research projects include the design methodology in microelectronics system, modeling, database and simulation in MEMS, MEMS processes development, micro accelerometer and integrated circuits processes development.

Mr. Li Li Xin, aged 44, graduated from the Faculty of Economics and Management of Tsinghua University with a master's degree. Mr. Li has engaged in specialized investment, establishment, operation and management of enterprises for over ten years and has extensive experience in product development, technology development, market development, capital management and resources integration. Mr. Li joined Beijing Beida Jade Bird Company Limited as a vice president in year 2001 and is also a director and the general manager of Macat Optics and Electronic Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Chao Yong, aged 41, graduated from Rutgers University in the United States of America (the "USA") with a MBA degree and is the founding parnter and chief executive officer of ChinaEquity Investment Co. ("ChinaEquity"), a leading venture capital firm based in the People's Republic of China (the "PRC") focusing on technology, media and telecommunication sector in the Greater China. Prior to founding ChinaEquity in 1999, Mr. Wang has over twelve years of experience in investment banking and financial services with J. P. Morgan Chase & Co., Standard & Poor's, Morgan Stanley Asia Co. in the USA and China Development Bank in the PRC, and has participated in a wide range of corporate and financial management projects. At present, Mr. Wang also serves as an advisor to the PRC projects in the Global Environment Funds of the World Bank, a special advisor to Personnel Exchanges Center of the China Academy Science of the PRC, and an advisor to the Commerce Bureau of the Beijing Municipal Government of the PRC and the founding Board Governor and the Secretary General of China Venture Capital Association in the PRC. Mr. Wang was appointed as an independent non-executive Director and a member of the audit committee of the Company in December 2004.

Prof. Nan Xiang Hao, aged 70, is an independent non-executive Director and a member of the audit committee of the Company. Prof. Nan is currently a part-time professor in the graduate school of University of Science and Technology of China. Prof. Nan was previously a supervisor of The Third Information Cryptology Commissary of The Chinese Computer Association. Prof. Nan has been awarded various science awards such as the Second Prize of State Technological Achievement.

Prof. Chin Man Chung, Ambrose, aged 40, is an independent non-executive Director and a member of the audit committee of the Company. He graduated from the Chinese Language and Literature Department of Peking University with a master degree in Literature. Prof. Chin is currently a professor of the Faculty of History of Fudan University and a researcher of morality and religion research centre of Tsinghua University. Prof. Chin has publication of thesis "Fu Ji Ya" etc. and received the First Prize of "Ji Xianlin" Oriental Literature Prize. Prof. Chin was appointed as an independent non-executive Director and a member of the audit committee of the Company in April 2002.

CHIEF SCIENTIST

Prof. Wang Yang Yuan, is appointed as the Chief Scientist of the Company in May 2003. Prof. Wang is responsible for the Company's overall technology research and development and monitoring the investment in Semiconductor Manufacturing International Corporation ("SMIC").

SUPERVISORS

Mr. Zhang Yong Li, aged 41, is chairman of the Company's supervisory committee. He graduated from the Geology Department of Peking University with a bachelor degree in Geology and subsequently obtained a doctorate degree in science from Chinese Science University. Mr. Zhang held various positions in the Beijing Beida Jade Bird Company Limited mainly in the areas of accounting and administration and has been appointed as deputy general manager and chief financial officer of Beijing Beida Jade Bird Company Limited since November 1998. Mr. Zhang is the director of Beijing Chenjian Donghua Real Estate Development Company Limited and the chairman of the supervisory committee of Shenzhen Macat Optics and Electronics Company Limited.

Mr. Du Hong, aged 53, is an independent Supervisor. He is currently a member of the qualification assessment committee of the State's Office senior engineering technology, a member of the assessment committee of the State's Science and Technology Advancement Award and a member of the strategic research expert committee of the State's "Eight, Six, Three" Plan relating to information security technology development. He is a senior engineer and was the president of the State Secrecy Bureau.

Ms. Lu Qing, aged 41, is an independent Supervisor. Ms. Lu graduated from Peking University with a bachelor degree in economics and subsequently obtained a master degree in economics and politics. In 1996, Ms. Lu obtained a master degree in business administration from HEC School of Management, Paris, France. Ms. Lu has extensive experience in investment consulting.

Mr. Li De Yong, aged 42, holds a master's degree in law from the Peking University. Mr. Li has worked in China Mechanical Machine and Accessories Engineering Company and is a qualified senior engineer. He has participated in various environmental protection projects and had extensive experience in marketing. Mr. Li then worked in the personnel department of Peking University and has extensive experience in human resources and management. Mr. Li joined Beijing Beida Jade Bird Company Limited as assistant to President in year 2003.

Ms. Dong Xiao Qing, aged 37, joined Beijing Beida Jade Bird Company Limited in March 1999 and was responsible for human resources management. In June 2000, Ms. Dong was appointed as the head of the human resources department of the Company. Ms. Dong has over six years experience in human resources in IT industry. She is familiar with the State Labour Law and has practical experience in human resources.

SENIOR MANAGEMENT

Mr. Cai Wei Min, aged 39, graduated with a bachelor degree in Physics from Peking University in 1990. Mr. Cai has worked in Beijing Sida Technology Development Centre, China Society and Science Academy Market and Investment Committee and was the general manager of Beijng Zhenghe Decoration Company. He has extensive experience in technology and marketing. He joined Hebei Beida Jade Bird Universal Fire Protection Equipment Ltd as the general manager since May 2002.

Mr. Ma Rui Yong, aged 33, graduated with a bachelor degree in Economics from Economy and Enterprise Management Department of Beijing College of Commerce in 1994. Mr. Ma was the deputy manager of Heilongjiang petrochina Beijing office and the general manager of Beijing Borenhuiye Science Development Ltd. He joined Wuhan Netsoft as the general manager since June 2004.

Mr. Wong Tak Chuen, aged 41, is the financial controller, qualified accountant and the company secretary of the Company. He has over 17 years of experience in auditing, accounting, taxation and financial management in Hong Kong and the PRC. Mr. Wong is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

OVERVIEW

Corporate governance has always been a key concern and thus is essential to the success of the Company. The Company believes that improvement of corporate governance not only can help monitor and regulate its business activities effectively, but also can attract more institutional investors to invest in the Company, and thus shareholders' interests will be protected.

CORPORATE GOVERNANCE PRACTICES

The following documents form the framework for the code of corporate governance practice of the Company:

1. Code on the Corporate Governance;

2. Code of Conduct for Securities Transactions by Directors of the Company;

3. Duties of the Board of Directors (the "Board");

4. Segregation of Duties between the Chairman and the President;

5. Disciplinary Rules of the Company;

6. Term of Reference on the Audit Committee;

7. Term of Reference on the Remuneration Committee; and

8. Written guidelines for relevant employees in respect of their dealings in the securities of the issuer

Save for the matters disclosed in the Company's announcements dated 7 July 2005 and 4 August 2005, and except for the Remuneration Committee, which was not established until 30 December 2005, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules during the year under review.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Conduct for Securities Transactions by Directors of the Company ("Code of Conduct") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries, all the Directors have confirmed that they have complied with such Code of Conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code of Conduct. No incident of non-compliance was noted by the Company in 2005.

THE BOARD

Composition of the Board

The Company's Board of Directors is responsible for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The second session of the Board currently comprises of three executive directors, four non-executive directors and three independent non-executive directors. With the exception of Mr. Wu Min Sheng who resigned as a non-executive Director with effect from 28 June 2005, all Directors served for the whole of 2005. Their terms of office will end upon the conclusion of the forthcoming 2005 annual general meeting. The biographical details of the Directors are set out on pages 11 to 13 of this annual report.

During the year, ten Board meetings were held and the attendance record of the Board meeting is set out below:

		Attendance/ Number of meetings
Executive directors		
Mr. Xu Zhen Dong, *Chairman*	*(note a)*	10/10
Mr. Xu Zhi Xiang, *President*		10/10
Mr. Zhang Wan Zhong		10/10
Non-executive directors		
Mr. Lo Lin Shing, Simon		1/10
Mr. Liu Yong Jin	*(note b)*	10/10
Mr. Hao Yi Long		10/10
Mr. Li Li Xin	*(note c)*	10/10
Mr. Wu Min Sheng	*(note d)*	3/3
Independent non-executive directors		
Mr. Wang Chao Yong	*(note e)*	9/10
Prof. Nan Xiang Hao	*(note f)*	9/10
Prof. Chin Man Chung, Ambrose	*(note g)*	5/10

Notes:

(a) Mr. Xu Zhen Dong personally attended seven of the meetings. The rest of the meetings were attended by his delegates.

(b) Mr. Liu Yong Jin personally attended nine of the meetings. The rest of the meetings were attended by his delegates.

(c) Mr. Li Li Xin personally attended six of the meetings. The rest of the meetings were attended by his delegates.

THE BOARD (Cont'd)

Composition of the Board (Cont'd)

Notes: (Cont'd)

(d) Mr. Wu Min Sheng personally attended two of the meetings. The rest of the meetings were attended by his delegates. Mr. Wu resigned as a director of the Company with effect from 28 June 2005.

(e) Mr. Wang Chao Yong personally attended six of the meetings. The rest of the meetings were attended by his delegates.

(f) Prof. Nan Xiang Hao personally attended nine of the meetings. The rest of the meetings were attended by his delegates.

(g) Prof. Chin Man Chung, Ambrose personally attended one of the meetings. The rest of the meetings were attended by his delegates.

In compliance with Rules 5.01 and 5.02, of the GEM Listing Rules (the "INED(s)"), the Company has three independent non-executive directors (the "INED(s)"), namely Mr. Wang Chao Yong, Prof. Nan Xiang Hao and Prof. Chin Man Chung, Ambrose, and Mr. Wang Chao Yong has the appropriate accounting expertise. These INEDs can help the management to formulate the Group's development strategies, ensure the Board prepares its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintains appropriate system to protect the interests of the Company and its shareholders. The Board has received the annual confirmation in respect of their independence from each of the INEDs, and believes that their independence is in compliance with the GEM Listing Rules as at the date of this annual report.

The Board has established two sub-committees: Audit Committee and Remuneration Committee. Both have terms of reference which accord with the principles set out in the CG Code. More details of these two sub-committees are set out in separate sections in this report.

Operation of the Board

Matters that need to be determined or considered by the Board include overall group strategies, substantial acquisitions, annual, interim and quarterly results, recommendations on the appointment or re-election of directors, distribution of dividends and other substantial operating and financial matters. General daily and routine operating decision-makings are handled by the management.

Before each board meeting, the Directors are provided with a detailed agenda, sufficient relevant information and a reasonable notice period by the Company, so as to enable the Directors to attend the board meeting and make appropriate decision in relation to the matters to be discussed. All Directors are entitled to include matters of their concern in the agenda of a board meeting. If the material interest of any director or his associate is involved in any resolution of the board meeting, such director must give up his voting right and should not be counted in the quorum of the meeting.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as directors. The directors may seek independent professional advice, if it is deemed necessary, at the Company's expenses. In addition, all directors may have unrestricted access to the senior management of the Company.

THE BOARD (Cont'd)

Chairman and President

The posts of Chairman and President were held by different persons during the year. Mr. Xu Zhen Dong served as an executive director and the Chairman of the Board, and Mr. Xu Zhi Xiang served as an executive director and the President. The separation of the roles and functions of the Chairman and President ensures a clear distinction in the Chairman's responsibility to manage the Board and the President responsibility to manage the Company's business activities.

Term of the Directors

Expect for Mr. Wang Chao Yong whose contract commencement date was 17 December 2004, the Directors (including non-executive directors) of the Company have all been appointed for a term of three years, and are subject to re-election according to the Company's articles of association.

Nomination of Directors

The Board has not established a nomination committee at the moment. The appointment of new director is therefore a matter for consideration and decision by the shareholders' meeting. The shareholder(s) considers that the new director is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company.

AUDIT COMMITTEE

The Company's audit committee (the "Audit Committee") has terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control and corporate governance issues of the Company and make relevant recommendations to the Board.

The terms of reference of the Audit Committee is published on the Company's website.

The Audit Committee comprises three members, namely, Mr. Wang Chao Yong, Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose, all are independent non-executive directors. Mr Prof. Nan Xiang Hao is the chairman of the Audit Committee. Mr. Wang Chao Yong has the appropriate financial and accounting experience required by the GEM Listing Rules.

In 2005, the Audit Committee held a total of four meetings, at which it reviewed the internal and external audit findings, the accounting principles and practices adopted by the Group, the listing and statutory compliance, and discussed the audit and internal control system, risk management and financial reporting matters (such as recommendations made to the Board to approve the quarterly, interim and annual results for 2005).

The Audit Committee reports to the Board after each meeting and suggests the matters which need close attention of the Board, and reports any matter which it considers an action or improvement is needed and makes relevant recommendations.

The attendance record of the Audit Committee is set out below:

Committee members	**Attendance/ No. of meetings**
Mr. Wang Chao Yong	3/4
Prof. Nan Xiang Hao	4/4
Prof. Chin Man Chung, Ambrose	4/4

REMUNERATION COMMITTEE

During the year, the remuneration committee of the Company (the "Remuneration Committee") was established on 30 December 2005, which is mainly responsible for making recommendations to the Board in respect of the remuneration policy and structure of all directors' and senior management. It annually reviews the existing remuneration policy and recommend to the Board changes to the Company's remuneration policy and structure.

The Remuneration Committee comprises three members. The Chairman of the Remuneration Committee is Mr. Xu Zhi Xiang, an executive Director, and the other members are Mr. Wong Chao Yong and Prof. Nan Xiang Hao, both of them are independent non-executive Directors.

The terms of reference of the Remuneration Committee is published on the Company's website.

During the year under review, the Remuneration Committee held one meeting in which the terms of reference of the Remuneration Committee were formulated, the appraisal system of the Company was reviewed, and matters concerning the determination of remuneration of the Directors and senior management were also discussed.

The attendance record of the Remuneration Committee is set out below:

Committee members	**Attendance/ No. of meetings**
Mr. Xu Zhi Xiang	1/1
Mr. Wang Chao Yong	1/1
Prof. Nan Xiang Hao	1/1

SUPERVISORY COMMITTEE

The supervisory committee of the Company (the "Supervisory Committee") comprises five members, namely Mr. Zhang Yong Li, Mr. Du Hong, Ms. Lu Qing, Mr. Li De Yong and Ms. Dong Xiao Qing, with Mr. Zhang Yong Li as the chairman of the Supervisory Committee. The supervisors have performed their work in a dedicated and diligent manner and carried out effectively the functions of supervising the legal and regulatory compliance relating to financial matters and overseeing the Directors and senior management of the Company during their offices.

The Supervisory Committee was established in compliance with the company law of the PRC.

REMUNERATION OF THE AUDITORS

For the year ended 31 December 2005, the Audit Committee of the Company had reviewed the performance of Messrs. Ernst & Young ("Ernst & Young") as the external auditors of the Company and proposed to re-appoint Ernst & Young as the external auditors. For the year ended 31 December 2005, the Company agreed auditing fees of RMB1,600,000 payable to Ernst & Young. Ernst & Young had not provided non-auditing services to the Company during the year.

RESPONSIBILITY FOR PREPARATION OF THE ACCOUNTS

The Directors acknowledge their responsibility for preparing the accounts of the Company. As at 31 December 2005, the Directors were not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors have prepared the financial statements of the Company on an on-going concern basis. The responsibility of the auditors with respect to financial reporting are set out in the Report of the Auditors in this annual report.

INTERNAL CONTROL

For the year ended 31 December 2005, the Company periodically reviewed its internal control system to ensure its effectiveness and adequacy, which embraced financial, operational and risk management control. However, the Directors are aware that there is still room for the Company to improve these respective controls and the system as a whole.

INVESTOR RELATIONS

The Company will meet with its shareholders and answer their enquiries in the annual or special general meetings. Moreover, the Company also communicates with investors and media from time to time.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group is the research, development, manufacturing, marketing and sale of embedded systems products, including network security products, wireless fire alarm systems and related products. The Group is also engaged in the sale of computer products and the provision of total solution services through the application of its existing embedded system products.

In November 2005, the Company disposed of its 51% owned subsidiary, Beijing Jade Bird Haodi Electric System Company Limited, for a consideration of RMB500,000. In addition, the Group is also engaged in the property development activities after acquiring an associate in 2005. Save as disclosed above, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 34 to 103 of this Annual Report.

The directors do not recommend the payment of a final dividend for the year (2004: Nil).

No interim dividend was declared in 2005. An interim dividend of RMB11,848,000 (RMB1 cent per share) was declared and paid in 2004.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years and reclassified as appropriate, is set out on page 4. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital are set out in note 27 to the financial statements.

For the year ended 31 December 2005, no share options were granted (2004: Nil). Details of the Company's share option scheme are set out in note 28 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Company and the Group are set out in note 25 to the financial statements.

DISPOSAL OF A SUBSIDIARY AND MATERIAL ACQUISITION OF AN ASSOCIATE

During the year, the Group disposed of its entire interest in a 51% own subsidiary, Beijing Jade Bird Haodi Electric System Company Limited, for a cash consideration of RMB500,000 and at a gain of RMB2 million.

During the year, the Company acquired a 44% interest in Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua") for a cash consideration of RMB252.59 million together with a shareholder's loan of RMB61.6 million. Chengjian Donghua is engaged in the development of a parcel of land in the city centre of Beijing into a transportation terminal and residential and commercial complex.

Except for the above, the Group had no material acquisitions and disposals of subsidiaries and affiliated company and investment during the year ended 31 December 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, in accordance with the PRC Company Law, an amount of approximately RMB378 million standing to the credit of the Company's capital reserve account, and an amount of approximately RMB53 million standing to the credit of the Company's statutory reserve funds (details of which are set forth in note 29 to the financial statements), as determined under the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had, as detailed in note 29 to the financial statements, accumulated losses of approximately RMB84 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 35% of the total sales for the year while the largest customer accounted for 16% of the total sales for the year. Purchases from the Group's five largest suppliers also accounted for 63% of the total purchases for the year while the largest supplier accounted for 44% of the total purchases for the year.

The Group has sold certain products and provided certain services to certain companies with the same ultimate controlling shareholder of the Company, details of which are set out in the note "Connected transactions" below. Save as aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and supplies.

DIRECTORS AND SUPERVISORS

The directors of the Company during the year were:

Executive directors:

Mr. Xu Zhen Dong
Mr. Xu Zhi Xiang
Mr. Zhang Wan Zhong

Non-executive directors:

Mr. Lo Lin Shing, Simon
Mr. Liu Yong Jin
Mr. Hao Yi Long
Mr. Wu Min Sheng *(resigned with effect from 28 June 2005)*
Mr. Li Li Xin

Independent non-executive directors:

Mr. Wang Chao Yong
Prof. Nan Xiang Hao
Prof. Chin Man Chung, Ambrose

Supervisors:

Mr. Zhang Yong Li
Mr. Du Hong
Ms. Lu Qing
Mr. Li De Yong
Ms. Dong Xiao Qing

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Except for Mr. Wang Chao Yong whose contract commencement date was 17 December 2004, each of the Directors and supervisors has entered into a service contract with the Company for a term of three years commencing from 25 June 2003.

As at 31 December 2005, none of the Directors has any existing or proposed service contracts with the Company, excluding contracts expiring or determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profile of the directors and supervisors of the Company, and the senior management of the Group are set out on pages 11 to 14 of this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No director and supervisor had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors, supervisors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them is taken or deemed to have taken under such provisions of the SFO); or (b) which will be required pursuant to section 352 of the SFO to be entered in the register referred to in that section; or (c) will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

	Name of director	*Note*	**Number of shares held, capacity and nature of interest beneficiary of a trust**	**Approximate percentage of the Company's total issued domestic share capital**	**Approximate percentage of the Company's total issued share capital**
1.	Mr. Xu Zhen Dong	*(a)*	205,414,000	29.34%	17.34%
2.	Mr. Xu Zhi Xiang	*(a)*	205,414,000	29.34%	17.34%
3.	Mr. Zhang Wan Zhong	*(a)*	205,414,000	29.34%	17.34%
4.	Mr. Liu Yong Jin	*(a)*	205,414,000	29.34%	17.34%
	Name of supervisor				
1.	Mr. Zhang Yong Li	*(a)*	205,414,000	29.34%	17.34%
2.	Mr. Dong Xiao Qing	*(a)*	205,414,000	29.34%	17.34%

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

Note:

(a) The above directors and supervisors of the Company are taken to be interested in the issued share capital of the Company through their respective interests as beneficiaries, among other beneficiaries, of Heng Huat Trust. By a declaration of trust ("Heng Huat Trust") made as a deed on 19 July 2000, Mr. Xu Zhen Dong, Mr. Zhang Wan Zhong and Ms. Liu Yue (who has been replaced by Mr. Xu Zhi Xiang since 9 May 2003 as a trustee) declared that they held the shares of Heng Huat Investments Limited ("Heng Huat") as trustees for the benefits of 477 employees of Beijing Beida Jade Bird Software System Company, Beijing Beida Jade Bird Limited, Beijing Beida Yu Huan Microelectronics System Engineering Company and Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited and their respective subsidiaries and associated companies and the Company. Heng Huat is beneficially interested in approximately 93.37% in the issued share capital of Dynamic Win Assets Limited ("Dynamic Win"), and is taken to be interested in 205,414,000 shares of the Company which Dynamic Win is interested. Mr. Xu Zhen Dong, Mr. Zhang Wan Zhong and Mr. Xu Zhi Xiang (who replaced Ms. Liu Yue as a trustee on 9 May 2003 upon Ms. Liu's resignation as a trustee on the same date) are trustees holding 60, 20 and 20 shares out of 100 shares in the issued share capital of Heng Huat.

Save as disclosed above, none of the directors, supervisors and chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the employee share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director and Supervisor or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and Supervisors to acquire such rights in any other body corporate. As at 31 December 2005, none of the directors or the supervisors had any rights to acquire H Shares in the Company.

EMPLOYEE SHARE OPTION SCHEME

The Company conditionally approved a share option scheme on 5 July 2000, pursuant to which the Board may, at its discretion, grant share option to any full-time employees of the Group to subscribe for shares in the Company, subject to a maximum of 30% of the Company's shares in issue at the date of grant. However, employees who are PRC nationals shall not be entitled to exercise the option until the current restrictions on PRC nationals from subscribing for or dealing in H shares imposed by the relevant PRC law and regulations have been abolished or removed. No options have been granted by the Company to any employees of the Group since the date of establishment of the share option scheme.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name		*Notes*	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's domestic issued share capital	Approximate percentage of the Company's issued share capital
1.	Peking University	(a)	Through a controlled corporation	310,000,000	44.28%	26.16%
2.	Beijing Beida Yu Huan Microelectronics System Engineering Company	(a)	Directly beneficially owned	85,000,000	12.14%	7.17%
3.	Beijing Beida Jade Bird Software System Company	(a)	Directly beneficially owned	110,000,000	15.71%	9.28%
4.	Beijing Beida Jade Bird Limited	(a)	Directly beneficially owned	115,000,000	16.43%	9.71%
5	Heng Huat Investments Limited	(b)	Through a controlled corporation	205,414,000	29.34%	17.34%
6.	Dynamic Win Assets Limited	(b)	Directly beneficially owned	205,414,000	29.34%	17.34%
7.	New World CyberBase Limited	(c)	Interest of controlled corporation	84,586,000	12.08%	7.14%
8.	New View Venture Limited	(c)	Directly beneficially owned	84,586,000	12.08%	7.14%
9.	Asian Technology Investment Company Limited		Directly beneficially owned	50,000,000	7.14%	4.22%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

Notes:

(a) Peking University is taken to be interested in 26.16% of the total issued share capital of the Company through the following companies:

(i) 85,000,000 shares (representing approximately 7.17% of the Company's share capital) held by Beijing Beida Yu Huan Microelectronics System Engineering Company, which is beneficially wholly-owned by Peking University;

(ii) 110,000,000 shares (representing approximately 9.28% of the Company's total share capital) held by Beijing Beida Jade Bird Software System Company, which is beneficially wholly-owned by Peking University; and

(iii) 115,000,000 shares (representing approximately 9.71% of the Company's total share capital) held by Beijing Beida Jade Bird Limited, which is approximately 46% owned by Peking University.

(b) The shares of the Company are held by Dynamic Win Assets Limited, which is wholly-owned by Heng Huat.

(c) The shares of the Company are held by New View Venture Limited, which is wholly-owned by New World CyberBase Limited.

Save as disclosed above, no person, other than the Directors and Supervisors of the Company, whose interests are set out in the section "Directors', Supervisors and Chief Executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors, Supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTIONS

Details of the connected transactions made by the Group during the year, as also regarded as the related party transactions in the financial statements are set out in note 33(b) to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

AUDIT COMMITTEE

The Company's audit committee (the "Audit Committee") has terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control and corporate governance issues of the Company and make relevant recommendations to the Board.

The Audit Committee comprises three members, namely, Mr. Wang Chao Yong, Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose, all are independent non-executive directors. Prof. Nan Xiang Hao is the chairman of the Audit Committee. An Audit Committee was held to review the Group's annual results and provide advice and recommendations to the Board of Directors.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save for the matters disclosed in the Company's announcements dated 7 July 2005 and 4 August 2005, and, except for the Remuneration Committee, which was not established until 30 December 2005, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules during the year under review.

AUDITORS

Ernst & Young retire and a resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD OF DIRECTORS
XU ZHEN DONG
Chairman

Beijing, the People's Republic of China
11 May 2006

To the Shareholders:

For the year ended 31 December 2005, the Supervisors of the Supervisory Committee have strictly complied with the requirements of the "Company Law of The People's Republic of China", "Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited" and the Articles of Association of the Company and adhered to the principles of honesty and integrity in discharging our supervisory duties and obligations faithfully and safeguarding the interests of the shareholders, the Company and its staff and be responsible to the shareholders.

During the year, two meetings of the Supervisory Committee were held.

(1) The fourth meeting of the second session of the Supervisory Committee was held at the conference room on the third floor of the Company on 29 March 2005. The agenda of the meeting was the review of the report of the 2004 annual results of the Company.

(2) The fifth meeting of the second session of the Supervisory Committee was held at the conference room on the third floor of the Company on 11 August 2005. The agenda of the meeting was the review of the report of the 2005 Interim results of the Company.

Moreover, the sixth meeting of the second session of the Supervisory Committee was held at the conference room on the third floor of the Company on 27 April 2006. The agenda of the meeting was the review of the report of the 2005 annual results of the Company.

During the period of this Report, the Supervisory Committee was present at all the major activities of the Company, such as the meetings of the Board of Directors and had discharged its supervisory functions over the Board of Directors and its members and senior management, such as general manager, deputy general managers, and the operations management of the Company.

As a result of our work, the Supervisory Committee is in a position to express its independent opinion in respect of the following matters:

1. The Supervisory Committee has verified the financial information such as the financial and performance reports and the profit appropriations proposal to be submitted to the Annual General Meeting by the Board of Directors in a serious manner. We are of the opinion that the financial statements audited by Ernst & Young for the year ended 31 December 2005 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

2. The management of the Company was able to execute the affairs of the Company in accordance with the "Company Law of The People's Republic of China" and the Articles of Association of the Company and establish a proper internal control system. During the period of this Report, the Supervisory Committee has not discovered any act of the management, in the performance of their duties, that prejudiced the interests of the Company and its staff, or contravened the laws and regulations of the State and the Articles of Association of the Company.

3. During the year, the Company was not threatened with any major litigation nor was there any matter that the Supervisory Committee had intervened with or threatened against the Board of Directors.

4. The connected transactions of the Company, which have fully complied with the relevant provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company.

We would like to express our appreciation for the strenuous supports given by the Shareholders, Directors and all staff to the work of the Supervisory Committee during the year.

By order of the Supervisory Committee
Zhang Yong Li
Chairman

Beijing, the People's Republic of China
11 May 2006

ERNST & YOUNG
安永會計師事務所

To the members
Beijing Beida Jade Bird Universal Sci-Tech Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 34 to 103 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents 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, except that the scope of our work was limited as explained below. An audit includes an 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 Company's and the Group'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. However, the evidence made available to us by the Group was limited because sufficient information and explanations necessary to enable us to understand and assess the recoverability of the Group's interest in its associate, Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua"), of RMB313 million, details of which are set out in note 16 to the financial statements, have not been made available. We have not been provided with sufficient documentation and information as to the adequacy of the profitability and funding of the property development project (the "Project") currently being undertaken by Chengjian Donghua, the circumstances giving rise to which are as follows:

(i) The estimated selling price of the hotel within the Project is critical to the assessment of the overall profitability of the Project. As of the date of this report, the verifiable evidential information made available to us by the Group as to the estimation of the average selling price of the hotel within the Project was limited.

(ii) One of the critical assumptions underlying the cash flow projection of the Project made available to us by the directors is that Chengjian Donghua will obtain the pre-sale property approval document from the authorities in the third quarter of 2006. One of the crucial documents needed to apply for the pre-sale property approval document is a formal property development company qualification grading certificate under the name of Chengjian Donghua. As of the date of this report, Chengjian Donghua has only obtained a temporary property development company qualification grading certificate, which is valid for two years and will expire in mid-2006. This temporary property development company qualification grading certificate has to be upgraded to a formal property development company qualification grading certificate. However, as of the date of issuing this report, the formal property development company qualification grading certificate has yet to be obtained by Chengjian Donghua.

There are no other satisfactory audit procedures that we could adopt to understand and assess the recoverability of the Group's interest in its associate.

In addition, the information and explanations necessary to enable us to understand and assess the appropriateness of the classification of 北京燕園金楓國際貿易有限公司, 北京安福房地產開發有限公司 and 北京潤澤滙亨商貿有限責任公司 as unrelated parties were insufficient. Further details are set out in note 22 to the financial statements. There are no other satisfactory audit procedures that we could adopt to understand and assess if the classification of 北京燕園金楓國際貿易有限公司, 北京安福房地產開發有限公司 and 北京潤澤滙亨商貿有限責任公司 as unrelated parties is appropriate.

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.

FUNDAMENTAL UNCERTAINTY – LITIGATION AGAINST THE GROUP'S KEY ASSOCIATE

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of the litigation filed by Shenzhen Development Bank against Chenjian Donghua, details of which are set out in note 32 to the financial statements. The outcome of this litigation could result in additional liabilities to Chengjian Donghua and/or the cessation of the development right of the Project thereby causing uncertainty in the recoverability of the Group's interest in its associate. The Group's interests in Chengjian Donghua included in the consolidated balance sheet at 31 December 2005 amounted to RMB313.4 million and the Group's share of loss of Chengjian Donghua for the year ended 31 December 2005 was RMB0.8 million, details of which are set out in note 16 to the financial statements. Details of the circumstances relating to this fundamental uncertainty are described in note 32 to these financial statements. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect alone.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments to both amounts and disclosures in the financial statements that might have been found to be necessary had we been able to obtain sufficient evidence concerning the recoverability of the Group's interest in an associate, Chengjian Donghua, of RMB313 million and the appropriateness of the classification of 北京燕園金楓國際貿易有限公司, 北京安福房地產開發有限公司 and 北京潤澤滙亨商貿有限責任公司 as unrelated parties, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation of our work relating to the recoverability of the Group's interest in its associate and the appropriate classification of 北京燕園金楓國際貿易有限公司, 北京安福房地產開發有限公司 and 北京潤澤滙亨商貿有限責任公司 as unrelated parties, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Ernst & Young
Certified Public Accountants
Hong Kong

11 May 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
REVENUE	4	**143,733**	130,503
Investment income, other revenue and gains	4	**4,334**	293,535
		148,067	424,038
Operating expenses			
Materials and equipment		**(119,921)**	(102,442)
Employee costs		**(18,060)**	(18,406)
Depreciation of property, plant and equipment	12	**(2,199)**	(3,190)
Amortisation of goodwill and other intangible assets	13 & 14	**(240)**	(5,886)
Impairment of goodwill	13	**(1,742)**	(3,556)
Other operating expenses		**(48,034)**	(47,379)
Total operating expenses		**(190,196)**	(180,859)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	**(42,129)**	243,179
Finance income/(costs)			
Interest income		**4,713**	3,095
Interest expense		**(19,195)**	(11,328)
Share of loss of an associate		**(816)**	–
PROFIT/(LOSS) BEFORE TAX		**(57,427)**	234,946
Tax	8	**(1,781)**	(3,280)
PROFIT/(LOSS) FOR THE YEAR		**(59,208)**	231,666
Attributable to:			
Equity holders of the parent		**(59,843)**	234,185
Minority interests		**635**	(2,519)
		(59,208)	231,666
DIVIDEND			
Interim	10(2)	**–**	11,848
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	11	**(5.1) cents**	20.4 cents

	Notes	2005 RMB'000	2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**32,725**	9,656
Goodwill	13	**6,125**	7,333
Other intangible assets	14	**40**	280
Interest in an associate	16	**313,375**	–
Available-for-sale equity investments/ long term investments	17	**418,535**	362,581
		770,800	379,850
CURRENT ASSETS			
Inventories	18	**19,151**	22,813
Trade receivables	19	**18,630**	27,578
Due from shareholders	20	**494**	43,781
Due from related parties	21	**359**	381,753
Prepayments, deposits and other receivables	22	**90,806**	8,641
Held for trading investments/short term investments	23	**–**	2,000
Non-pledged time deposits with original maturity of more than three months when acquired	24	**49,000**	157,524
Cash and cash equivalents	24	**185,557**	164,542
		363,997	808,632
TOTAL ASSETS		**1,134,797**	1,188,482
CURRENT LIABILITIES			
Interest-bearing bank loans	25	**234,036**	310,017
Trade payables	26	**12,191**	14,991
Advances from customers		**5,620**	9,827
Accrued liabilities and other payables		**29,118**	22,212
Due to shareholders	20	**1,106**	1,261
Due to related parties	21	**7,214**	1,993
Tax payable		**8,094**	6,313
		297,379	366,614
NET CURRENT ASSETS		**66,618**	442,018
TOTAL ASSETS LESS CURRENT LIABILITIES		**837,418**	821,868
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	25	**20,000**	–
NET ASSETS		**817,418**	821,868
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	27	**118,480**	118,480
Reserves	29(a)	**697,230**	699,918
		815,710	818,398
Minority interests		**1,708**	3,470
TOTAL EQUITY		**817,418**	821,868

XU ZHEN DONG
Director

XU ZHI XIANG
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Attributable to equity holders of the parent								
	Notes	Issued share capital RMB'000	Capital reserve RMB'000	Reserve funds RMB'000	Available-for-sale investments revaluation reserve RMB'000	Retained profits RMB'000	Foreign exchange translation reserve RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2004		110,400	322,479	17,867	–	83,421	–	534,167	6,131	540,298
Issue of H shares	27	8,080	56,210	–	–	–	–	64,290	–	64,290
Share issue expenses	27	–	(2,396)	–	–	–	–	(2,396)	–	(2,396)
Net profit/(loss) for the year		–	–	–	–	234,185	–	234,185	(2,519)	231,666
Disposal of a subsidiary	*30(a)*	–	–	–	–	–	–	–	(1,564)	(1,564)
New capital contribution by minority shareholders of a subsidiary		–	–	–	–	–	–	–	1,422	1,422
Transfer to capital reserve	*(i)*	–	1,427	–	–	(1,427)	–	–	–	–
Transfer to reserve funds	*10(1)*	–	–	35,084	–	(35,084)	–	–	–	–
Interim dividend	*10(2)*	–	–	–	–	(11,848)	–	(11,848)	–	(11,848)
At 31 December 2004		118,480	377,720 #	52,951 #	– #	269,247 #	– #	818,398	3,470	821,868
At 1 January 2005										
As previously reported		118,480	377,720	52,951	–	269,247	–	818,398	3,470	821,868
Opening adjustment	*(ii)*	–	–	–	323,818	–	–	323,818	–	323,818
As restated		118,480	377,720	52,951	323,818	269,247	–	1,142,216	3,470	1,145,686
Changes in fair value of available-for-sale equity investments	17	–	–	–	(255,107)	–	–	(255,107)	–	(255,107)
Currency translation differences		–	–	–	–	–	(11,556)	(11,556)	–	(11,156)
Total income and expense for the year recognised directly in equity		–	–	–	(255,107)	–	(11,556)	(266,663)	–	(266,663)
Net profit/(loss) for the year		–	–	–	–	(59,843)	–	(59,843)	635	(59,208)
Total income and expense for the year		–	–	–	(255,107)	(59,843)	(11,556)	(326,506)	635	(325,871)
Transfer to reserve funds	*10(1)*	–	–	836	–	(836)	–	–	–	–
Dividend payable to minority shareholders of a subsidiary		–	–	–	–	–	–	–	(2,397)	(2,397)
At 31 December 2005		**118,480**	**377,720 #**	**53,787 #**	**68,711 #**	**208,568 #**	**(11,556) #**	**815,710**	**1,708**	**817,418**

(i) In 2004, Hebei Beida Jade Bird Universal Fire Alarm Device Company Limited ("Hebei Fire Alarm"), a subsidiary of the Company, reached an agreement with a bank to restructure a bank loan of RMB3,060,000. Pursuant to the agreement, Hebei Fire Alarm was allowed to settle the bank loan by certain of its property with a total carrying amount of approximately RMB1,158,000, leading to a gain of approximately RMB1,902,000 recognised in the income statement for the year. After taking into account the minority interests and income tax effect, the net gain resulting from this debt restructuring attributable to the equity holders of the parent is transferred to a capital reserve in accordance with the PRC accounting principles and regulations.

(ii) In prior years, the Group classified its investments in equity securities as long term investments, which were held for long term basis and were stated at cost less impairment losses. Upon the adoption of Hong Kong Accounting Standard ("HKAS") 39, effective from 1 January 2005, these securities held by the Group at 1 January 2005 are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

These reserve accounts comprise the consolidated reserves of RMB697,230,000 (2004: RMB699,918,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) from operating activities		**(42,129)**	243,179
Adjustments for:			
Exchange (gains)/losses, net	*5*	**(648)**	864
Provision for doubtful debts	*5*	**21,866**	34,534
Provision for obsolete and slow-moving inventories	*5*	**1,002**	338
Loss on disposal of property, plant and equipment	*5*	**14**	1,246
Gain on disposal of a subsidiary	*5*	**(2,047)**	(1,254)
Gain on disposal of long term investments	*4*	**–**	(289,214)
Loss on disposal of held for trading investments	*5*	**57**	–
Gain on debt restructuring	*5*	**–**	(1,902)
Depreciation of property, plant and equipment	*12*	**2,199**	3,190
Amortisation of goodwill and other intangible assets	*13&14*	**240**	5,886
Impairment of goodwill	*13*	**1,742**	3,556
Operating profit/(loss) before working capital changes		**(17,704)**	423
(Increase)/decrease in inventories		**2,008**	(8,452)
(Increase)/decrease in trade receivables		**(6,758)**	9,667
Decrease in bills receivable		**–**	8,726
(Increase)/decrease in amounts due from shareholders		**43,287**	(12,453)
(Increase)/decrease in amounts due from related parties		**67,203**	(355,179)
(Increase)/decrease in prepayments, deposits and other receivables		**(87,373)**	8,130
Decrease in trade payables		**(2,490)**	(1,135)
Increase/(decrease) in advances from customers		**(4,207)**	1,295
Increase in accrued liabilities and other payables		**6,881**	5,801
Decrease in amounts due to shareholders		**(155)**	(431)
Increase in amounts due to related parties		**5,221**	520
Cash generated from/(used in) operations		**5,913**	(343,088)
PRC corporate income tax paid		**–**	(606)
Net cash inflow/(outflow) from operating activities		**5,913**	(343,694)

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**108,524**	32,163
Proceeds from disposal of property, plant and equipment		**32**	–
Purchases of property, plant and equipment		**(25,317)**	(7,867)
Purchases of short term investments		–	(2,000)
Acquisition of a subsidiary	*30(b)*	–	731
Disposal of a subsidiary	*30(a)*	**(2)**	1,504
Proceeds from disposal of long term investments		–	437,631
Proceeds from disposal of held for trading investments		**1,943**	–
Interest received		**4,193**	3,961
Acquisition of minority interests	*13(i)*	**(534)**	–
Net cash inflow from investing activities		**88,839**	466,123
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of H shares		–	64,290
Share issue expenses		–	(2,396)
New bank loans		**288,359**	–
Repayment of bank loans		**(338,285)**	(84,284)
Dividend paid		–	(11,848)
Interest paid		**(19,529)**	(11,407)
Net cash outflow from financing activities		**(69,455)**	(45,645)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**25,297**	76,784
Cash and cash equivalents at beginning of year		**164,542**	88,322
Effect of foreign exchange rate changes, net		**(4,282)**	(564)
CASH AND CASH EQUIVALENTS AT END OF YEAR	*24*	**185,557**	164,542

Balance Sheet

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**12,244**	3,633
Interests in subsidiaries	15	**170,351**	580,785
Interest in an associate	16	**314,191**	–
		496,786	584,418
CURRENT ASSETS			
Inventories	18	**2,830**	2,149
Trade receivables	19	**461**	7,196
Due from shareholders	20	**494**	42,781
Due from related parties	21	**357**	59,755
Prepayments, deposits and other receivables	22	**78,700**	2,264
Held for trading investments/short term investments	23	**–**	2,000
Non-pledged time deposits with original maturity of more than three months when acquired	24	**49,000**	102,352
Cash and cash equivalents	24	**93,183**	49,735
		225,025	268,232
TOTAL ASSETS		**721,811**	852,650
CURRENT LIABILITIES			
Interest-bearing bank loans	25	**234,036**	310,017
Trade payables	26	**228**	181
Advances from customers		**1,219**	1,037
Accrued liabilities and other payables		**15,136**	15,637
Due to shareholders	20	**583**	909
Due to a related parties	21	**6,050**	465
		257,252	328,246
NET CURRENT LIABILITIES		**(32,227)**	(60,014)
NET ASSETS		**464,559**	524,404
EQUITY			
Issued capital	27	**118,480**	118,480
Reserves	29(b)	**346,079**	405,924
		464,559	524,404

XU ZHEN DONG
Director

XU ZHI XIANG
Director

1. CORPORATE INFORMATION

Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") was incorporated as a sino-foreign joint stock limited liability company in Beijing, the People's Republic of China (the "PRC"), on 29 March 2000. The Company's H shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 27 July 2000.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the research, development, manufacturing, marketing and sale of embedded systems products, including network security products ("NET"), wireless fire alarm systems ("WFAS"), application specific integrated circuits ("ASIC"), global positioning system application systems ("GPS"), smart card application systems ("IC"), remote automatic metre-reading systems ("RMR") and related products. The Group was also engaged in the sale of computer products ("Computer") and the provision of total solution services through the application of its existing embedded system products during the year. In addition, the Group was also engaged in the property development activities during the year.

The registered office of the Company is located at 3rd Floor, Beida Jade Bird Building, No. 207 Chengfu Road, Haidian District, Beijing 100871, the PRC.

In the opinion of the directors, the ultimate controlling shareholder is Peking University, a university in Beijing, the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HKFRSs

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

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 11	Construction Contracts
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 20	Accounting for Government Grants and Disclosure of Government Assistance
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 31	Interests in Joint Ventures
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
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 20, 21, 23, 27, 28, 31, 33, 37, 38 and 40, HKFRS 5, HK (SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 IMPACT OF NEW AND REVISED HKFRSs (Continued)

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39 – Financial Instruments

Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses, on an individual basis. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. The effects of this change are summarised in note 2.4 to these financial statements.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB2,000,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement. The adoption of this change has not resulted in any change in the measurement of these equity securities.

(b) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HKFRSs (Continued)

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

As the Group has not granted options to any employees (including directors) since the date of establishment of the share option scheme, the effect of adopting HKFRS 2 has had no impact on the Group's and the Company's income statements and retained profits.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

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
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economics*

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs (Continued)

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005. HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 March 2006.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKASs 32 and 39 Change in classification of equity investments *RMB'000*	Effect of adopting HKAS 39 Revaluation of available-for-sale equity investments *RMB'000*	Total *RMB'000*
Assets			
Available-for-sale equity investments	362,581	323,818	686,399
Long term investments	(362,581)	–	(362,581)
Held for trading equity investments	2,000	–	2,000
Short term investments	(2,000)	–	(2,000)
			323,818
Equity			
Available-for-sale investments revaluation reserve	–	323,818	323,818

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKASs 32 and 39 Change in classification of equity investments *RMB'000*	Effect of adopting HKAS 39 Revaluation of available-for-sale equity investments *RMB'000*	Total *RMB'000*
Assets			
Available-for-sale equity investments	349,824	68,711	418,535
Long term investments	(349,824)	–	(349,824)
			68,711
Equity			
Available-for-sale investments revaluation reserve	–	68,711	68,711

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policy Year ended 31 December 2005	Effect of adopting HKFRS 3 Discontinuation of amortisation of goodwill *RMB'000*	Total *RMB'000*
Decrease in amortisation of goodwill and increase in profit	6,014	6,014
Increase in basic earnings per share	0.5 cents	0.5 cents

Effect of new policy Year ended 31 December 2004	Effect of adopting HKFRS 3 Discontinuation of amortisation of goodwill *RMB'000*	Total *RMB'000*
Decrease in amortisation of goodwill and increase in profit	–	–
Increase in basic earnings per share	–	–

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	20 years
Machinery and equipment	3 to 10 years
Leasehold improvements, furniture and office equipment	2 to 5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets represent information technology rights and are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for the intangible assets are reviewed at least at each balance sheet date.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Applicable to the year ended 31 December 2004:

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified as held for trading financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment; or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Impairment of financial assets (Applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Derecognition of financial assets (Applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Applicable to the year ended 31 December 2005) (Continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities (Applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of embedded systems and related products, when the installation work is completed, the customer has accepted the systems and the products and the significant risks and rewards of ownership have been transferred to the customer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the embedded systems and related products sold;

(b) income from the sale of computer products, when the products are shipped, the title of which has passed and the significant risks and rewards of ownership have been transferred to the customer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the computer products sold;

(c) income from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Retirement benefits schemes

The Company and its subsidiaries in Mainland China participate in defined contribution retirement schemes organised by the local government authorities in Mainland China. All of the employees in Mainland China are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company and its subsidiaries in Mainland China are required to make contributions to the retirement schemes at a rate of 20% of the basic salaries of their employees in Mainland China and have no further obligation for post-retirement benefits. The contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividend

Final dividend proposed by the directors is classified as a separate allocation of retained profits within the equity section of the balance sheet, until it has been approved by the shareholders in a general meeting. When the final dividend has been approved by the shareholders and declared, it is recognised as a liability.

Interim dividend is simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.6 SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was RMB6,125,000 (2004: RMB7,333,000). More details are given in note 13 to these financial statements.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacture and sale of NET;

(b) the manufacture and sale of WFAS;

(c) the manufacture and sale of ASIC;

(d) the manufacture and sale of GPS;

(e) the manufacture and sale of IC;

(f) the manufacture and sale of RMR;

(g) the trading of Computer; and

(h) the property development.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for the sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments:

	2005 *RMB'000*								
	NET	WFAS	ASIC	GPS (i)	IC (ii)	RMR (iii)	Computer	Property development	Total
Revenue									
Sales to external customers	8,415	39,377	557	–	–	339	95,045	–	143,733
Results									
Segment results	(13,569)	1,680	120	–	–	(36)	(3,759)	–	(15,564)
Interest income									4,713
Interest expense									(19,195)
Share of loss of an associate	–	–	–	–	–	–	–	(816)	(816)
Unallocated corporate expenses									(26,565)
Loss before tax									(57,427)
Tax									(1,781)
Loss for the year									(59,208)

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	2005 RMB'000								
	NET	WFAS	ASIC	GPS (i)	IC (ii)	RMR (iii)	Computer	Property development	Total
ASSETS									
Segment assets	20,519	54,367	2,493	–	–	–	140,909	–	218,289
Interest in associates	–	–	–	–	–	–	–	313,375	313,375
Less: Intersegment assets									(15,405)
Unallocated corporate assets									618,538
Total assets									1,134,797
LIABILITIES									
Segment liabilities	13,540	32,248	1,244	–	–	–	35,154	–	82,186
Less: Intersegment liabilities	(2,319)	(2,683)	–	–	–	–	(10,403)	–	(15,405)
Unallocated corporate liabilities									250,598
Total liabilities									317,379
OTHER SEGMENT INFORMATION									
Capital expenditure	5,123	14,937	764	–	–	–	4,483	–	25,317
Depreciation of property, plant and equipment	972	375	115	–	–	–	737	–	2,199
Amortisation of other intangible assets	240	–	–	–	–	–	–	–	240
Impairment of goodwill	1,742	–	–	–	–	–	–	–	1,742
Provision for doubtful debts, net	11,374	2,885	370	–	–	–	7,235	–	21,864
Provision for obsolete and slow-moving inventories, net	578	–	70	–	–	–	354	-	1,002

(i) Pursuant to the technology licence agreement (the "Technology Licence Agreement") entered into between the Company and Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited ("Beijing Tianqiao") dated 17 April 2000, Beijing Tianqiao has granted an exclusive licence to the Company for the use of certain GPS technology for a period of 10 years, in return for a royalty fee calculated at a rate of 3% on the total sales of the products using this technology (note 33 (c)). As the Technology Licence Agreement is still currently effective, therefore, although the Group did not obtain any contracts for the production and sale of GPS products in 2005, the directors of the Company are of the view that the Company currently does not have any intention to terminate this service line in the foreseeable future.

(ii) The Group did not obtain any contracts for the production and sale of IC products in 2005. However, the directors of the Company are of the view that the Group does not have any intention to terminate this service line in the foreseeable future.

(iii) The Group only had minor transactions of the production and sale of RMR products in 2005. However, the directors of the Company are of the view that the Group currently does not have any intention to terminate this service live in the foreseeable future.

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	NET	WFAS	ASIC	GPS	IC	RMR	Computer	Property development	Total
				2004 RMB'000					
REVENUE									
Sales to external customers	9,430	44,244	25,434	–	106	420	50,869	–	130,503
RESULTS									
Segment results	(4,325)	7,302	787	–	(39)	(2,390)	362	–	1,697
Investment income								–	289,214
Interest income								–	3,095
Interest expense								–	(11,328)
Unallocated corporate expenses								–	(47,732)
Profit before tax								–	234,946
Tax								–	(3,280)
Profit for the year								–	231,666
ASSETS									
Segment assets	16,766	45,007	558	1,019	77	3,035	492,520	–	558,982
Less: Intersegment assets	–	–	–	–	–	–	(96,460)	–	(96,460)
Less: Unallocated corporate assets								–	725,960
Total assets								–	1,188,482
LIABILITIES									
Segment liabilities	4,112	28,110	–	1,064	49	4,437	19,108	–	56,880
Less: Intersegment liabilities	(186)	(13,507)	–	–	–	(499)	–	–	(14,192)
Less: Unallocated corporate liabilities								–	323,926
Total liabilities								–	366,614
OTHER SEGMENT INFORMATION									
Capital expenditure	92	5,234	–	–	–	–	2,541	–	7,867
Depreciation of property, plant and equipment	504	1,746	295	40	2	38	565	–	3,190
Amortisation of goodwill	439	3,500	–	–	–	1,707	–	–	5,646
Amortisation of other intangible assets	–	–	240	–	–	–	–	–	240
Impairment of goodwill	–	–	–	–	–	3,556	–	–	3,556
Provision/(write-back of provision) for doubtful debts, net	29,921	2,631	271	–	515	1,456	(260)	–	34,534
Provision for obsolete and slow-moving inventories, net	–	–	–	–	–	338	–	–	338

(b) Geographical segments

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments:

Group	Mainland China		Hong Kong		Total	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
REVENUE						
Sales to external customers	**102,679**	100,220	**41,054**	30,283	**143,733**	130,503
OTHER SEGMENT INFORMATION						
Segment assets	**886,800**	1,173,846	**247,997**	14,636	**1,134,797**	1,188,482
Capital expenditure	**25,317**	7,867	**–**	–	**25,317**	7,867

4. REVENUE, INVESTMENT INCOME, OTHER REVENUE AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered, net of sales surtaxes, during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, investment income, other revenue and gains is as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Revenue		
Sale of embedded systems and related products	**47,494**	77,206
Sale of computer products	**95,045**	50,869
Rendering of total solution services	**1,194**	2,428
	143,733	130,503
Investment income		
Gain on disposal of long term investments *(note 17)*	**–**	289,214
Other revenue		
Others	**1,639**	1,165
Gains		
Gain on disposal of a subsidiary *(note 30(a))*	**2,047**	1,254
Gain on debt restructuring*	**–**	1,902
Exchange gains, net	**648**	–
	2,695	3,156
	4,334	293,535

* In 2004, Hebei Fire Alarm, a subsidiary of the Company, reached an agreement with a bank to restructure a bank loan of RMB3,060,000. Pursuant to the agreement, Hebei Fire Alarm was allowed to settle the bank loan by certain of its property with a total carrying amount of approximately RMB1,158,000, leading to a gain of approximately RMB1,902,000 recognised in the consolidated income statement for 2004.

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

		Group	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**120,401**	102,307
Cost of services provided, and which included:			
Employees costs		**1,125**	1,301
Depreciation of property, plant and equipment		**210**	279
Office expenses		**12**	9
Others		**291**	303
Employees costs (excluding directors' and supervisors' remuneration *(note 7)*):			
Wages, salaries and bonuses		**13,966**	13,572
Social security costs		**968**	1,676
Retirements benefits scheme contributions	*6*	**828**	852
Auditors' remuneration		**1,600**	954
Depreciation of property, plant and equipment	*12*	**2,199**	3,190
Research and development costs		**5,592**	6,177
Advertising and promotion costs		**10,528**	4,498
Exchange (gains)/losses, net		**(648)**	864
Loss on disposal of property, plant and equipment		**14**	1,246
Loss on disposal of held for trading investments		**57**	–
Amortisation of goodwill	*13*	**–**	5,646
Amortisation of other intangible assets	*14*	**240**	240
Impairment of goodwill	*13*	**1,742**	3,556
Operating lease rentals in respect of land and buildings		**1,873**	1,997
Provision for doubtful debts, net		**21,866**	34,534
Provision for obsolete and slow-moving inventories, net		**1,002**	338
Research and development costs included:			
Employees costs		**4,191**	4,278
Depreciation of property, plant and equipment		**502**	707
Office expenses		**117**	692
Others		**782**	500

6. RETIREMENT BENEFITS

During the year ended 31 December 2005, the aggregate contributions of the Group to its retirement benefits schemes were approximately RMB828,000 (2004: RMB860,000). As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in the future years (2004: Nil).

7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION

(a) Directors' and supervisors' remuneration

Directors' and supervisors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Fees	**350**	350
Basic salaries, housing benefits, other allowances and benefits in kind	**1,048**	1,048
Bonuses*	**900**	900
Retirement benefits scheme contributions	**–**	8
	2,298	2,306

* Based on the resolution of the Company's remuneration committee meeting held on 25 April 2006, bonus amounting to RMB300,000 would be paid to each of the three executive directors of the Company for the year ended 31 December 2005.

The bonuses for the year ended 31 December 2004 were paid to executive directors and calculated at a rate of approximately 0.4% of the consolidated net profit attributable to equity holders of the parent before the provision of such bonuses. Pursuant to the service contracts entered into between the Company and its executive directors, the Company's executive directors are entitled to an aggregate amount of bonuses of not more than 5% of the consolidated profit after tax but before the provision of such bonuses.

7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

(a) Directors' and supervisors' remuneration (Continued)

Year ended 31 December 2005

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Bonuses	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Xu Zhen Dong	–	346	300	–	646
Mr. Xu Zhi Xiang	–	296	300	–	596
Mr. Zhang Wan Zhong	–	256	300	–	556
Mr. Lo Lin Shing, Simon	50	–	–	–	50
Mr. Liu Yong Jin	50	–	–	–	50
Mr. Hao Yi Long	50	–	–	–	50
Mr. Li Li Xin	50	–	–	–	50
Mr. Wang Chao Yong	50	–	–	–	50
Prof. Nan Xiang Hao	50	–	–	–	50
Prof. Chin Man Chung, Ambrose	50	–	–	–	50
	350	898	900	–	2,148
Supervisors					
Mr. Zhang Yong Li	–	30	–	–	30
Mr. Du Hong	–	30	–	–	30
Ms. Lu Qing	–	30	–	–	30
Mr. Li De Yong	–	30	–	–	30
Ms. Dong Xiao Qing	–	30	–	–	30
	–	150	–	–	150
	350	1,048	900	–	2,298

7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

(a) Directors' and supervisors' remuneration (Continued)

Year ended 31 December 2004

	Fees	Basic salaries, housing benefits, other allowances and benefits in kind	Bonuses	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Xu Zhen Dong	–	346	300	3	649
Mr. Xu Zhi Xiang	–	296	300	3	599
Mr. Zhang Wan Zhong	–	256	300	2	558
Mr. Lo Lin Shing, Simon	50	–	–	–	50
Mr. Liu Yong Jin	50	–	–	–	50
Mr. Hao Yi Long	50	–	–	–	50
Mr. Li Li Xin	50	–	–	–	50
Mr. Wang Chao Yong	50	–	–	–	50
Prof. Nan Xiang Hao	50	–	–	–	50
Prof. Chin Man Chung, Ambrose	50	–	–	–	50
	350	898	900	8	2,156
Supervisors					
Mr. Zhang Yong Li	–	30	–	–	30
Mr. Du Hong	–	30	–	–	30
Ms. Lu Qing	–	30	–	–	30
Mr. Li De Yong	–	30	–	–	30
Ms. Dong Xiao Qing	–	30	–	–	30
	–	150	–	–	150
	350	1,048	900	8	2,306

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2004: Nil).

There was no emolument paid by the Group to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2004: Nil).

7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

(b) Five highest paid employees

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are also set out in the directors' and supervisors' remuneration in note 7 (a) above. Details of the remuneration of the five highest paid individuals are as follows:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,088**	2,047
Bonuses	**900**	900
Retirement benefits scheme contributions	**12**	21
	3,000	2,968

The remuneration of each of the highest paid individuals for the year ended 31 December 2005 fell within the band of nil to RMB1,051,700 (equivalent to Hong Kong dollars ("HK$") 1,000,000) (2004: RMB1,060,000 (equivalent to HK$1,000,000)).

There was no arrangement under which an employee waived or agreed to waive any remuneration during the year (2004: Nil).

There was no emolument paid by the Group to any of the employee as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2004: Nil).

8. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2004: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

	Group	
	2005	2004
	RMB'000	*RMB'000*
Current – Mainland China	**1,781**	3,280

8. TAX (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries, are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to effective tax rates, are as follows:

	Group			
	2005		2004	
	RMB'000	%	*RMB'000*	%
Profit/(loss) before tax	**(57,427)**		234,946	
Tax at the statutory tax rate	**(18,951)**	(33.0)	77,532	33.0
Loss attributable to an associate	**269**	0.4	–	–
Lower tax rate for specific provinces or local authority	**–**	–	(268)	(0.1)
Income not subject to tax	**(222)**	(0.3)	(95,441)	(40.6)
Expenses not deductible for tax	**2,196**	2.9	898	0.4
Tax exemptions	**–**	–	(134)	(0.1)
Tax losses not recognised	**18,489**	32.2	20,693	8.8
Tax charge at the Group's effective rate	**1,781**	3.1	3,280	1.4

The Company is registered in the Beijing New Technology Enterprise Development Zone and has been certified by the relevant PRC authorities as a high technology enterprise. Pursuant to the Income Tax Law in the PRC, the Company is subject to corporate income tax at a rate of 15%. In accordance with an approval document issued by the relevant tax bureau, the Company has been granted income tax exemption for the three years ended 31 December 2002 and 50% reduction in corporate income tax for the three years ended 31 December 2005.

As at 31 December 2005, the Group had an aggregate amount of provision for doubtful debts and provision for obsolete and slow-moving inventories of approximately RMB69,819,000 (2004: RMB38,226,000). Deferred tax assets have not been recognised in respect of these provisions as adequate future taxable profit against which these deductible temporary differences can be utilised is beyond reasonable doubt.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the directors do not have intention to remit such earnings to the Company in the foreseeable future.

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was approximately RMB59,845,000 (2004: RMB57,809,000) (note 29(b)).

10. PROFIT APPROPRIATIONS

(1) Under the PRC Company Law and the respective companies' articles of association, the net profit after tax as reported in the PRC statutory financial statements, prepared in accordance with PRC accounting principles and regulations, can only be distributed as dividends after allowance has been made for the following:

(i) Make-up of prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of profit after tax, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to this reserve, the profit after tax shall be the amount determined under the accounting principles and the financial regulations applicable in the PRC ("PRC GAAP"). The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset prior years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the Company.

(iii) Allocations of 5% to 10% of profit after tax, as determined under PRC GAAP, to the Company's statutory public welfare fund, which will be established for the purpose of providing collective welfare benefits to the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholders' equity as individual employees can only use these facilities, while the title of which will remain with the Company. The transfer to this fund must be made before any distribution of dividends to shareholders.

(iv) Allocations to the discretionary reserve fund if approved by the shareholders. The discretionary reserve fund can be used to offset prior years' losses, if any, and capitalised as the Company's share capital.

10. PROFIT APPROPRIATIONS (Continued)

(2) Dividend

No interim dividend was declared and paid in 2005. An interim dividend of RMB11,848,000 (RMB1 cent per share) was declared and paid in 2004.

The board of directors do not recommend the payment of a final dividend (2004: Nil).

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP; and (ii) the net profit determined in accordance with Hong Kong accounting standards.

Cash dividend to shareholders in Hong Kong will be paid in Hong Kong dollars.

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share for the year ended 31 December 2005 is based on the net loss attributable to equity holders of the parent for the year ended 31 December 2005 of approximately RMB59,843,000, and the 1,184,800,000 ordinary shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the net profit attributable to equity holders of the parent for the year ended 31 December 2004 of approximately RMB234,185,000, and the weighted average of 1,146,828,415 ordinary shares in issue during 2004 as adjusted to reflect the new placement of H shares during 2004.

Diluted earnings per share amounts for the year ended 31 December 2005 and 31 December 2004 have not been calculated because no diluting events existed during the years.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land RMB'000	Buildings RMB'000	Machinery and equipment RMB'000	Leasehold improvements, furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2004	216	2,343	23,403	3,282	1,062	–	30,306
Additions	–	346	958	175	2,949	3,439	7,867
Disposal of a subsidiary *(note 30(a))*	–	–	(150)	–	–	–	(150)
Disposals	(216)	(1,412)	(1,380)	(7)	(115)	–	(3,130)
At 31 December 2004 and 1 January 2005	–	1,277	22,831	3,450	3,896	3,439	34,893
Additions	–	18,976	1,948	989	185	3,219	25,317
Transfer from construction in progress	–	3,467	162	–	–	(3,629)	–
Disposals	–	–	(204)	(309)	(167)	–	(680)
Exchange difference in foreign currency translation	–	–	–	–	(6)	–	(6)
At 31 December 2005	**–**	**23,720**	**24,737**	**4,130**	**3,908**	**3,029**	**59,524**
Accumulated depreciation:							
At 1 January 2004	52	253	20,491	2,553	638	–	23,987
Depreciation provided during the year	18	465	1,335	790	582	–	3,190
Disposal of a subsidiary *(note 30(a))*	–	–	(56)	–	–	–	(56)
Disposals	(70)	(563)	(1,166)	(7)	(78)	–	(1,884)
At 31 December 2004 and 1 January 2005	–	155	20,604	3,336	1,142	–	25,237
Depreciation provided during the year	–	348	582	610	659	–	2,199
Disposals	–	–	(174)	(294)	(166)	–	(634)
Exchange difference in foreign currency translation	–	–	–	–	(3)	–	(3)
At 31 December 2005	**–**	**503**	**21,012**	**3,652**	**1,632**	**–**	**26,799**
Net book value:							
At 31 December 2005	**–**	**23,217**	**3,725**	**478**	**2,276**	**3,029**	**32,725**
At 31 December 2004	–	1,122	2,227	114	2,754	3,439	9,656

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Leasehold improvements, furniture and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:					
At 1 January 2004	878	20,307	3,052	419	24,656
Additions	–	74	10	2,496	2,580
Disposals	–	(6)	–	–	(6)
At 31 December 2004 and 1 January 2005	878	20,375	3,062	2,915	27,230
Additions	9,790	100	294	–	10,184
Disposals	–	(83)	(236)	(159)	(478)
At 31 December 2005	10,668	20,392	3,120	2,756	36,936
Accumulated depreciation:					
At 1 January 2004	93	19,546	2,460	344	22,443
Depreciation provided during the year	42	431	338	348	1,159
Disposals	–	(5)	–	–	(5)
At 31 December 2004 and 1 January 2005	135	19,972	2,798	692	23,597
Depreciation provided during the year	328	131	551	526	1,536
Disposals	–	(46)	(236)	(159)	(441)
At 31 December 2005	463	20,057	3,113	1,059	24,692
Net book value:					
At 31 December 2005	10,205	335	7	1,697	12,244
At 31 December 2004	743	403	264	2,223	3,633

As at 31 December 2005, the Group's building and machinery and equipment with net book values of RMB12,651,000 (2004: Nil) and RMB2,331,000 (2004: Nil) were pledged to secure a bank loan of RMB20,000,000 (note 25).

13. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	Group
	RMB'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	28,231
Effect of adopting HKFRS 3 *(note 2.2(b))*	(20,898)
Cost as restated	7,333
Accumulated amortisation and impairment as previously reported	(20,898)
Effect of adopting HKFRS 3 *(note 2.2(b))*	20,898
Accumulated amortisation and impairment as restated	–
Net carrying amount	7,333
Cost at 1 January 2005, net of accumulated impairment	7,333
Additions (i)	534
Impairment during the year	(1,742)
Cost and carrying amount at 31 December 2005	6,125
At 31 December 2005:	
Cost	7,867
Accumulated impairment	(1,742)
Cost and carrying amount	6,125

13. GOODWILL (Continued)

	Group *RMB'000*
31 December 2004	
At 1 January 2004:	
Cost	28,231
Accumulated amortisation and impairment	(11,696)
Net carrying amount	16,535
Cost at 1 January 2004, net of accumulated amortisation and impairment	16,535
Amortisation provided during the year	(5,646)
Impairment during the year	(3,556)
At 31 December 2004	7,333
At 31 December 2004:	
Cost	28,231
Accumulated amortisation and impairment	(20,898)
Net carrying amount	7,333

Prior to 1 January 2004, goodwill was amortised on the straight-line basis over its estimated useful life of five years.

(i) During the year, the Company increased its shareholding in Wuhan Beida Jade Bird Netsoft Company Limited ("Wuhan Netsoft") from 51% to 57% by acquiring an additional 6% equity interests from minority shareholders. Goodwill arising from the acquisition amounted to RMB534,000.

14. OTHER INTANGIBLE ASSETS

Other intangible assets comprising information technology rights are as follows:

	Group *RMB'000*
Cost:	
At 1 January 2005 and 31 December 2005	1,200
Accumulated amortisation:	
At 1 January 2004	680
Amortisation provided during the year	240
At 31 December 2004 and 1 January 2005	920
Amortisation provided during the year	240
At 31 December 2005	**1,160**
Net book value:	
At 31 December 2005	**40**
At 31 December 2004	280

15. INTERESTS IN SUBSIDIARIES

	Company 2005 RMB'000	Company 2004 RMB'000
Equity interests, at cost	**9,792**	22,933
Due from subsidiaries	**168,056**	561,408
Due to a subsidiary	**(1,263)**	–
	176,585	584,341
Impairment	**(6,234)**	(3,556)
	170,351	580,785

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries as at 31 December 2005 are as follows:

Name	Place of incorporation/ establishment and operations	Legal status	Nominal value of registered capital	Percentage of equity attributable to the Company	Principal activities
Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited ("Cayman Development")	Cayman Islands/ Hong Kong	Limited liability company	US$10,000	100	Technology research, development and sale of integrated circuits, computer products and related products
Hebei Fire Alarm	Hebei Province, the PRC	Limited liability company	RMB10,000,000	75	Technology research, development, manufacture and sale of fire alarm system products
Wuhan Netsoft**	Wuhan, the PRC	Limited liability company	RMB10,000,000	57	Research, development, production and sale of network management products, and provision of network systems integration services
Beijing Beia Jade Bird (Cayman) Investment Company Limited*	Cayman Islands/ Hong Kong	Limited liability company	US$100	100	Investment holding
Beida Jade Bird Overseas Education Limited*	British Virgin Islands/ Hong Kong	Limited liability company	US$50,000	100	Investment holding

* These are subsidiaries of Cayman Development.

** During the year, the Company increased its shareholding in Wuhan Netsoft from 51% to 57% by acquiring an additional 6% equity interests from minority shareholders. Goodwill arising from the acquisition amounted to RMB534,000 (note 13).

16. INTEREST IN AN ASSOCIATE

The Company entered into a share transfer agreement (the "Agreement") with Beijing Beida Jade Bird Limited ("Beida Jade Bird", one of the shareholders of the Company) on 24 March 2005 (note 21) to acquire a 44% equity interest in Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua"). Based on the legal opinion provided by the Company's external legal counsel, all the pre-completion conditions of the Agreement have been fulfilled and as such, the acquisition has been duly completed during the year. Chengjian Donghua's articles of association have been amended to reflect the Company as an investor of Chengjian Donghua holding a 44% equity interest in Chengjian Donghua. In addition, the Company has obtained a shareholder certificate from Chengjian Donghua on 19 August 2005 indicating that the Company holds a 44% equity interest in Chengjian Donghua. As of the date of issuing these financial statements, the approval documents from the Beijing Municipal Bureau of Commerce and Beijing Municipal Commission of Development and Reform have yet to be obtained by the Company in connection with the aforesaid acquisition of the 44% equity interest in Chengjian Donghua.

In addition, pursuant to the Agreement, a loan receivable from Chengjian Donghua of RMB61,600,000 has been transferred from Beida Jade Bird to the Company upon the completion of the acquisition.

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Equity interests, at cost	**–**	–	**252,591**	–
Share of net assets	**251,775 #**	–	**–**	–
	251,775	–	**252,591**	–
Due from an associate (note 33(h))	**61,600**	–	**61,600**	–
	313,375	–	**314,191**	–

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Company's associate as at 31 December 2005 are as follows:

Name	Place of incorporation/ establishment and operations	Legal status	Nominal value of registered capital	Percentage of equity attributable to the Company	Principal activity
Chengjian Donghua	Beijing, the PRC	Limited liability company	RMB50,000,000	44	Property development

16. INTEREST IN AN ASSOCIATE (Continued)

Summarised financial information of the Group's associate as at and for the year ended 31 December 2005 is as follows:

	RMB'000
Total assets	1,787,758 [(a)]
Total liabilities	1,793,799 [(b)]
Revenue	–
Loss for the year	3,139

(a) Consisting mainly of the following:

	RMB'000
Property development costs	1,631,689
Other receivables	155,691*

* Subsequent to 31 December 2005 and prior to the date of issuing these financial statements, Chengjian Donghua transferred the legal title to certain of its receivables from three unrelated companies aggregating RMB113.1 million as at 31 December 2005 to Beida Jade Bird. Chengjian Donghua and Beida Jade Bird signed a tri-partite agreement with each of the three companies above respectively whereby Beida Jade Bird agreed to take up these receivables and recognised them as partial settlements made by Chengjian Donghua of its payable to Beida Jade Bird.

(b) Consisting mainly of the following:

	RMB'000
Amount due to Beida Jade Bird	1,614,847[#]
Amount due to the Company	61,600
Amount due to Beijing Donghua Company, a fellow subsidiary of the Company	42,491
Payable to contractors	70,483

[#] This amount arose, in part, from the repayment of an amount due to Beijing Donghua Company of RMB700 million that Chengjian Donghua received from Beijing Donghua Company in 2003 being the first phase payment made by Beijing Donghua Company to Chengjian Donghua in relation to certain property development business cooperation. The property development business cooperation was cancelled by a cancellation agreement dated 12 December 2004. Further details of the above are set out in note 32 to these financial statements.

Since the property development project of Chengjian Donghua was still in the construction phase in 2005 and Chengjian Donghua has not obtained banking facilities, Chengjian Donghua has to rely on certain of the related parties/fellow subsidiaries of the Company, including Beida Jade Bird, 北京特利投資管理有限公司 and Beijing Donghua Company, to fund its construction and working capital requirements and to settle construction costs on its behalf.

17. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2005	2004
	RMB'000	*RMB'000*
Listed equity investments, at fair value:		
Hong Kong	**418,535**	362,581

Available-for-sale equity investments consist of equity investments in Semiconductor Manufacturing International Corporation ("SMIC"), a publicly listed company incorporated in the Cayman Islands. The principal activities of SMIC and its subsidiaries are the manufacturing and marketing of advanced technology semiconductors in the PRC.

Subsequent to the disposal of 156,842,000 SMIC's ordinary shares in 2004 giving rise to a gain on disposal of available-for-sale equity investments of approximately RMB289 million (note 4) in 2004, the Group still held 383,163,400 ordinary shares of SMIC as at 31 December 2005. The entire equity investments in SMIC were pledged as collateral for the Group's bank loan (note 25) obtained from the Agricultural Bank of China as at 31 December 2005. Pursuant to the equity investments pledged agreement, the Agricultural Bank of China is entitled to fully transfer the title of the 383,163,400 ordinary shares of SMIC under its name or fully dispose of these equity investments if the average closing market price of SMIC's share for any three consecutive days is equal to or higher than HK$1.80 per share or if the market price of SMIC's share at any point of time is equal to or lower than HK$0.90 per share. The market price of SMIC's shares ranged from HK$1.01 to HK$1.33 per share for the period from 31 December 2005 to the date of issue of these financial statements.

As at 31 December 2005, as agreed among the Group, SMIC and certain of SMIC's shareholders upon the initial public offering of SMIC in March 2004, out of the Group's total shareholding in SMIC of 383,163,400 ordinary shares, 140,160,970 ordinary shares were subject to lock-up periods (restricting the public sale of the Group's shareholding in SMIC), details of which are set out below:

Lock-up period expiring:	**Shareholding of SMIC shares**
In March 2006	81,000,810 shares
In August 2006	59,160,160 shares
	140,160,970 shares

17. AVAILABLE-FOR-SALE EQUITY INVESTMENT/LONG TERM INVESTMENTS (Continued)

Upon the expiry of the respective lock-up periods, the relevant SMIC ordinary shares will be available-for-sale.

During the year, the gross loss of the Group's available-for-sale equity investments recognised directly in equity amounted to RMB255,107,000.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate. The fair values of listed equity investments are based on quoted market prices.

18. INVENTORIES

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**10,293**	5,406	**693**	785
Work in progress	**1,592**	1,560	**23**	588
Finished goods	**8,809**	16,729	**3,449**	1,320
	20,694	23,695	**4,165**	2,693
Less: Provision for obsolete and slow-moving inventories	**(1,543)**	(882)	**(1,335)**	(544)
	19,151	22,813	**2,830**	2,149

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is sometimes required. The credit period generally ranges from three to six months, starting from the date on which the significant risks and rewards of ownership of products are transferred by the Group to customers or the date of completion of services provided or the payment due date as defined in the contracts, whichever is the latest. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforesaid and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

19. TRADE RECEIVABLES (Continued)

An aged analysis of the trade receivables as at the balance sheet date, based on the date on which the significant risks and rewards of ownership of products were transferred by the Group to customers or the date of completion of services provided or the payment due date as defined in the contracts, whichever is the latest, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**10,304**	12,976	**298**	1,607
3 to 6 months	**3,836**	11,260	**121**	4,226
6 to 12 months	**3,274**	2,700	**11**	1,363
Over 12 months	**1,216**	642	**31**	–
	18,630	27,578	**461**	7,196

Included in the Group's and the Company's trade receivables are the following amounts due from related parties which are repayable on similar credit terms to those offered to independent third party customers:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from related parties *(note 33 (h))*	**185**	207	**123**	207

20. BALANCES WITH SHAREHOLDERS

The balances with shareholders are unsecured, interest-free and have no fixed terms of repayment.

21. BALANCES WITH RELATED PARTIES

Except for the amount due from Beijing Beida On-line Network Company Limited ("Beida On-line") which bears interest at an annual interest rate of 5.13%, all other balances with related parties are interest-free. All balances with related parties are unsecured and have no fixed terms of repayment.

Included in the amounts due from related parties as at 31 December 2004 was a sum of approximately RMB320 million, representing approximately RMB287 million as to Hong Kong Jade Bird Sci-Tech Limited ("HK Jade Bird Sci-Tech") and approximately RMB33 million as to Wisdom New Group Limited ("Wisdom New Group"), both of which are controlled by Beida Jade Bird. Pursuant to a share transfer agreement (the "Agreement") entered into with Beida Jade Bird on 24 March 2005, the sum was utilised as earnest money for acquiring a 44% equity interest in a property development company in Beijing. Should the conditions precedent (including but not limited to approval by the independent shareholders of the Company and all necessary approvals and permissions from the relevant government and/or regulatory authorities) of the Agreement be fulfilled or waived by the Company, the earnest money would be applied and recorded in the consolidated balance sheet of the Group as an interest in an associate.

In August 2005, the above acquisition was duly completed, details of which are set out in note 16 to the financial statements.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances to suppliers	**8,207**	2,168	**32**	303
Prepayments	**21,010**	234	**20,970**	159
Advances to staff	**2,827**	1,786	**426**	443
Deposits	**494**	558	**306**	309
Other receivables*	**58,268***	3,895	**56,966***	1,050
	90,806	8,641	**78,700**	2,264

* Subsequent to 31 December 2005 and prior to the date of issuing these financial statements, an aggregate amount of RMB53,415,000 and RMB52,320,000 has been recovered by the Group and Company, respectively.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

On 2 April 2005, the Company entered into a purchase agreement with each of the three domestic companies: 北京火炬投資管理有限公司, 北京燕園金楓國際貿易有限公司 and 北京潤澤滙亨商貿有限責任公司 for the purchase of computer equipment, details of which are as follows:

(i) According to the computer purchase agreement signed by the Company with 北京火炬投資管理有限公司, an unrelated independent third party, on 2 April 2005 for a total purchase consideration of RMB16 million, the Company was required to make an advance payment of 50% of the purchase consideration to 北京火炬投資管理有限公司 amounting to RMB8 million on 13 April 2005. This computer purchase transaction was subsequently terminated by the Company and 北京火炬投資管理有限公司. Cash advances totalling RMB16 million were subsequently made to 北京火炬投資管理有限公司 by the Company. Prior to the date of issuing these financial statements, 北京火炬投資管理有限公司 settled an aggregate amount of RMB9.4 million due to the Company. For the remaining RMB6.6 million, a provision for doubtful debts of RMB3.3 million was made as at 31 December 2005.

(ii) According to the computer purchase agreement signed by the Company with 北京燕園金楓國際貿易有限公司, an unrelated independent third party, on 2 April 2005 for a total purchase consideration of RMB33 million, the Company made an advance payment of 50% of the purchase consideration to 北京燕園金楓國際貿易有限公司 amounting to RMB16.5 million on 8 April 2005. This computer purchase transaction was subsequently terminated by the Company and 北京燕園金楓國際貿易有限公司. Prior to the date of issuing these financial statements, 北京燕園金楓國際貿易有限公司 fully settled the amount of RMB16.5 million due to the Company.

(iii) According to computer purchase agreement signed by the Company with 北京潤澤滙亨商貿有限責任公司, an unrelated independent third party, on 2 April 2005 for a total consideration of RMB11.2 million, the Company made an advance payment of 50% of the purchase consideration to 北京潤澤滙亨商貿有限責任公司 amounting to RMB5.6 million on 4 April 2005. This computer purchase transaction was subsequently terminated by the Company and 北京潤澤滙亨商貿有限責任公司. Prior to the date of issuing these financial statements, 北京潤澤滙亨商貿有限責任公司 fully settled RMB5.6 million due to the Company.

In addition, on 21 March 2005, the Company made an advance to 北京安福房地產開發有限公司, an unrelated independent third party, amounting to RMB28 million. During 2005, 北京安福房地產開發有限公司 has repaid an amount of RMB7.5 million to the Company. Prior to the date of issuing these financial statements, 北京安福房地產開發有限公司 fully settled the remaining balance of RMB20.5 million to the Company.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Included in the Group's and the Company's prepayments, deposits and other receivable is the following amount due to a related party:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amount due to a related party *(note 33 (h))*	**–**	200	**–**	200

23. HELD FOR TRADING INVESTMENTS/SHORT TERM INVESTMENTS

	Group and Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted investments, at fair value	**–**	2,000

Held for trading investments comprise two investment funds in the PRC of RMB1,000,000 each.

24. DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**84,058**	101,739	**39,501**	49,735
Time deposits	**150,499**	220,327	**102,682**	102,352
	234,557	322,066	**142,183**	152,087
Less: Non-pledged deposits with original maturity of more than three months when acquired	**(49,000)**	(157,524)	**(49,000)**	(102,352)
Cash and cash equivalents	**185,557**	164,542	**93,183**	49,735

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for terms of between one and six months depending on the immediate cash requirements of the Group and the Company.

25. INTEREST-BEARING BANK LOANS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank loans repayable:				
Within one year	**234,036**	310,017	**234,036**	310,017
In the second year	**–**	–	**–**	–
In the third to fifth years, inclusive	**20,000**	–	**–**	–
Beyond five years	**–**	–	**–**	–
	254,036	310,017	**234,036**	310,017
Less: Portion classified as current liabilities	**(234,036)**	(310,017)	**(234,036)**	(310,017)
Long term portion	**20,000**	–	**–**	–

All interest-bearing bank loans of the Group and the Company bore interest at rates ranging from approximately 4.96% to 6.70% per annum at 31 December 2005 (2004: 2.84% to 5.31%).

As at 31 December 2005, the Group's and the Company's interest-bearing bank loan of US$29 million (equivalent to approximately RMB234,036,000) was secured by a pledge of the Group's entire available-for-sale equity investment of RMB418,535,000 (note 17) and guaranteed by a shareholder of the Company (note 33(g)).

In addition, as at 31 December 2005, the Group's interest-bearing bank loans of RMB20,000,000 were secured by mortgage over certain of the Group's building, and machinery and equipment with net book values of RMB12,651,000 and RMB2,331,000, respectively, as at the balance sheet date (note 12).

As at 31 December 2004, a shareholder of the Company and a subsidiary of Peking University, the ultimate controlling shareholder of the Company, had jointly guaranteed the Group's and the Company's interest-bearing bank loans of up to US$37.5 million (equivalent to approximately RMB310,017,000) as at the balance sheet date (note 33(g)).

26. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the date on which the significant risks and rewards of ownership of materials were transferred by the suppliers to the Group, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**6,106**	5,353	**210**	83
3 to 6 months	**849**	1,210	**2**	–
6 to 12 months	**229**	18	**–**	–
Over 12 months	**5,007**	8,410	**16**	98
	12,191	14,991	**228**	181

Included in the Group's and the Company's trade payables are the following amounts due to a shareholder and related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amount due to a shareholder *(note 33(h))*	**–**	32	**–**	–
Amounts due to related parties *(note 33(h))*	**232**	–	**45**	–
	232	32	**45**	–

The amounts due to a shareholder and related parties are unsecured, interest-free and have no fixed terms of repayment.

27. SHARE CAPITAL

	Group and Company	
	2005	2004
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
700,000,000 legal person shares of RMB0.10 each	**70,000**	70,000
484,800,000 H shares of RMB0.10 each	**48,480**	48,480
	118,480	118,480

On 21 June 2004, 80,800,000 new H shares of the Company with a par value of RMB0.10 each were issued to the public and listed on the GEM by way of placing at a price of HK$0.75 (equivalent to approximately RMB0.80) per H share.

A summary of the movements in the Company's issued share capital for the year ended 31 December 2004 is as follows:

	Number of shares inissue	**Issued share capital**	**Capital reserve**	**Total**
		RMB'000	*RMB'000*	*RMB'000*
At 31 December 2003 and 1 January 2004	1,104,000,000	110,400	322,479	432,879
Issue of H shares	80,800,000	8,080	56,210	64,290
	1,184,800,000	118,480	378,689	497,169
Share issue expenses	–	–	(2,396)	(2,396)
Transfer to capital reserve*	–	–	1,427	1,427
	1,184,800,000	118,480	377,720	496,200

Details of the Company's share option scheme are included in note 28 to these financial statements.

* Details are set out in note (i) in the consolidated statement of changes in equity.

28. EMPLOYEE SHARE OPTIONS

The Company has a share option scheme, pursuant to which the board of directors of the Company may grant options to full-time employees of the Group (including directors of the Company) to subscribe for H shares, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding the shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (i) the nominal value of an H share; (ii) the average of the closing prices of the H shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the H shares quoted on the GEM on the date of grant, which must be a business day. However, employees who are Mainland China nationals shall not be entitled to exercise the option until the current restrictions on these persons from subscribing or dealing in H shares imposed by the laws and regulations in Mainland China have been abolished or removed.

As of the date of these financial statements, no share options have been granted under the aforesaid scheme.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 36 of this annual report.

(b) Company

	Notes	Capital reserve *RMB'000**	Reserve funds *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2004		322,479	17,683	81,605	421,767
Issue of H shares	*27*	56,210	–	–	56,210
Share issue expenses	*27*	(2,396)	–	–	(2,396)
Net loss for the year		–	–	(57,809)	(57,809)
Transfer to a capital reserve**		1,427	–	(1,427)	–
Transfer to reserve funds	*10(1)*	–	34,896	(34,896)	–
Interim dividend	*10(2)*	–	–	(11,848)	(11,848)
At 31 December 2004		377,720	52,579	(24,375)	405,924
Net loss for the year		–	–	(59,845)	(59,845)
At 31 December 2005		377,720	52,579	(84,220)	346,079

* The capital reserve may only be used to increase share capital.

** Details are set out in note (i) in the consolidated statement of changes in equity.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

During the year, the Company disposed of its entire equity interest in Beijing Jade Bird Haodi Electric System Company Limited, a 51% owned subsidiary of the Company, for a consideration of RMB500,000.

In 2004, the Company disposed of its entire equity interests in Beijing Beida Jade Bird Silicon Innovation Company Limited ("Beijing Silicon Innovation"), a 60% owned subsidiary of the Company, for a consideration of RMB3,600,000.

	2005	2004
	RMB'000	*RMB'000*
Net assets disposed of:		
Property, plant and equipment, net	**–**	94
Trade receivables	**–**	136
Prepayments, deposits and other receivables	**147**	8,778
Inventories	**652**	4,839
Cash and bank balances	**2**	896
Trade payables	**(310)**	(778)
Advances from customers	**–**	(3,251)
Accrued liabilities and other payables	**(2,038)**	(6,804)
Minority interests	**–**	(1,564)
Net assets	**(1,547)**	2,346
Gain on disposal of a subsidiary *(note 4)*	**2,047**	1,254
	500	3,600
Satisfied by:		
Receivable from an independent individual	**500**	–
Due from a related party *(note 33(b))*	**–**	1,200
Cash	**–**	2,400
	500	3,600

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005	2004
	RMB'000	*RMB'000*
Cash consideration	**–**	2,400
Cash and bank balances disposed of	**(2)**	(896)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary	**(2)**	1,504

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of a subsidiary

During 2004, the Group purchased 100% equity interest in Beida Jade Bird Overseas Education Limited from HK Jade Bird Sci-Tech, a related party of the Company (note 33(b)). Subsequent to this acquisition, Beida Jade Bird Overseas Education Limited is a wholly-owed subsidiary of Cayman Investment, a wholly-owed subsidiary of the Company.

	2005	2004
	RMB'000	*RMB'000*
Net assets acquired:		
Cash and bank balances	–	1,144
Due to a related party	–	(731)
	–	413
Satisfied by:		
Cash *(note 33(b))*	–	413

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2005	2004
	RMB'000	*RMB'000*
Cash consideration	–	(413)
Cash and bank balances acquired	–	1,144
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	731

31. COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

As at 31 December 2005, the Group and the Company had the following minimum lease payments under non-cancellable operating leases in respect of land and buildings:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**1,015**	1,007
In the second to fifth years, inclusive	**511**	170
	1,526	1,177

	Company	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**487**	475
In the second to fifth years, inclusive	**61**	119
	548	594

(b) Capital commitments

	Group	
	2005	2004
	RMB'000	*RMB'000*
Within one year	**–**	2,461

32. CONTINGENT LIABILITIES

Chengjian Donghua, the sole associate of the Company which was acquired from Beida Jade Bird in August 2005, is currently a defendant in a civil litigation in Beijing. On 17 November 2005, Shenzhen Development Bank ("SDB"), as the plaintiff, obtained an order from the People's High Court of Beijing to freeze the assets of Beijing Donghua Company and Chengjian Donghua for a value equivalent to RMB1,530 million. The assets frozen by the order included the land use rights of a parcel of land (the "Land") located at Dongzhimen Wai, Dongcheng District, Beijing, currently registered under the name of Chengjian Donghua. The Land is for the development of a transportation terminal and a large-scale commercial and residential complex (the "Dongzhimen Project").

Beijing Donghua Company is a Sino-foreign cooperative joint venture established by Chengjian Donghua and Strong Ground Investment Limited ("Strong Ground", a company incorporated in the British Vingin Islands) in 2002 for the purpose of undertaking the Dongzhimen Project. Cooperation between Chengjian Donghua and Strong Ground for the development of the Dongzhimen Project was evidenced by a cooperation agreement (the "Cooperation Agreement") signed by Chengjian Donghua and Strong Ground on 19 November 2001 and a supplementary agreement (the "Supplementary Agreement") signed by both parties on 16 September 2003. By a cancellation agreement (the "Cancellation Agreement") signed by Chengjian Donghua and Strong Ground on 12 December 2004, Chengjian Donghua and Strong Ground agreed to cancel the Cooperation Agreement and the Supplementary Agreement, and to release each other from the obligations and liabilities under the Cooperation Agreement and the Supplementary Agreement. As designated by Strong Ground pursuant to the Cancellation Agreement, Chengjian Donghua repaid Beijing Donghua Company a sum of RMB700 million (note 16) previously received by Chengjian Donghua pursuant to the Cooperation Agreement, as amended by the Supplementary Agreement.

Based on the documents filed with the People's High Court of Beijing, SDB's claim is for, among other things, an order for the transfer of the Land to Beijing Donghua Company and that Beijing Donghua Company be adjudged to be liable a guarantor for a principal sum of RMB1,500 million lent by SDB to Zhongcai State-owned Enterprise Investment Company Limited ("Zhongcai Enterprise") and Shouchuang Network Company Limited ("Shouchuang Network") together with interest accrued thereon of RMB30.74 million up to 31 October 2005. The directors of the Company are not aware of any relationship between Zhongcai Enterprise and Shouchuang Network, and the Company and connected persons (as defined in the Growth Enterprise Market Listing Rules) of the Company.

On 24 February 2006, upon the application by Chengjian Donghua for discharge of the freeze order and upon the provision of a guarantee by 中投信用擔保有限公司, a limited liability company established in the PRC principally engaged in the provision of guarantees and related advisory services, for the performance of the obligations of Chengjian Donghua, the People's High Court of Beijing ordered the discharge of the freeze order. The directors of the Company understand that, upon the discharge of the freeze order, the Land is released as a security from the claim by SDB. However, the claim by SDB against Beijing Donghua Company and Chengjian Donghua for repayment of the principal sum of RMB1,500 million lent to Zhongcai Enterprise and Shouchuang Network together with the interest accrued thereon is still pending adjudication by the People's High Court of Beijing.

Based on the legal opinion provided by the external legal advisors of Chengjian Donghua, the directors of the Company are of the view that Chengjian Donghua has a valid defence against the aforesaid litigation filed by SDB against Chengjian Donghua and therefore, no provision for such claim was required in the financial statements of Chengjian Donghua.

33. RELATED PARTY TRANSACTIONS

(a) A list of related parties and their relationships with the Group is as follows:

Name of related party	Relationship
Peking University	The ultimate controlling shareholder
Beida Jade Bird	A shareholder of the Company and also a company controlled by Peking University
Beijing Beida Yu Huan Microelectronics System Engineering Company ("Beida Yu Huan")	A shareholder of the Company and also a company controlled by Peking University
Beijing Tianqiao	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird Sci-Tech Limited ("Shanghai Jade Bird")	A subsidiary of Beida Jade Bird
Chengdu Beida Jade Bird Nuclear Application Research Institute Co., Ltd. ("Chengdu Jade Bird")	A subsidiary of Beida Jade Bird
Shenyang Beida Jade Bird BIS Company Limited ("Shenyang BIS")	A company controlled by Peking University
HK Jade Bird Sci-Tech	A subsidiary of Beida Jade Bird
Wisdom New Group	A subsidiary of Beida Jade Bird
Shenzhen Beida Jade Bird Sci-Tech Company Limited ("Shenzhen Jade Bird")	A subsidiary of Beida Jade Bird
Hainan Jade Bird Safeguard Fire Alarm and Monitor Technologies Company Limited ("Hainan Jade Bird")	An associate of Beida Jade Bird
Weifang Beida Jade Bird Huaguang Sci-Tech Company Limited ("Jade Bird Huaguang")	A subsidiary of Beida Jade Bird
Beida On-line	An associate of Beida Jade Bird
Guangzhou Beida Jade Bird BIS Company Limited ("Guangzhou BIS")	A company controlled by Peking University
Beijing Beida Jade Bird Software System Company ("Jade Bird Software")	A shareholder of the Company and also a company controlled by Peking University

33. RELATED PARTY TRANSACTIONS (Continued)

(a) A list of related parties and their relationships with the Group is as follows: (Continued)

Name of related party	Relationship
Jade Bird Security System	A subsidiary of Beida Jade Bird
Beijing Science and Technology Enterprise Development Center of Peking University ("Beida Sci-Tech")	A company controlled by Peking University
Western Beida Jade Bird Investment Company Limited ("Western Jade Bird")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Babylon Restaurant ("Beida Babylon")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Huaguang Sci-Tech Company Limited ("Beijing Huaguang")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Information System Company Limited ("Beijing Jade Bird IS")	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird BIS Company Limited ("Shanghai BIS")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird BIS Company Limited ("Beijing BIS")	A subsidiary of Beida Jade Bird
Beijing Shang Hai Wei Trade Company Limited ("Beijing SHW")	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird Information System Company Limited ("Shanghai Jade Bird IS")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Chinese Technical Development Company Limited ("Beijing Jade Bird CTD")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Appliance Information Technology Company Limited ("Beida Jade Bird AIT")	A subsidiary of Beida Jade Bird
Wuhan Beida Jade Bird BIS Company Limited ("Wuhan BIS")	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird BIS Company Limited – Nanjing Branch ("Shanghai BIS NJ Branch")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Sihua Information System ("Jade Bird Sihua")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Education Company Limited ("Beida Education")	A subsidiary of Beida Jade Bird

33. RELATED PARTY TRANSACTIONS (Continued)

(b) Peking University is the ultimate controlling shareholder of the Company. In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with Peking University and the companies and parties under the control of Peking University during the year:

	2005	2004
	RMB'000	*RMB'000*
Sale of embedded systems products and provision of total solution services to:		
Beijing Tianqiao	**700**	424
Beida Jade Bird	**–**	239
Jade Bird Security System	**447**	–
Beijing Jade Bird IS	**52**	–
Guangzhou BIS	**247**	–
Shanghai BIS	**138**	–
Shanghai BIS NJ Branch	**128**	–
Beijing BIS	**173**	–
Beijing SHW	**345**	–
Shanghai Jade Bird IS	**97**	–
Beijing Jade Bird CTD	**145**	–
Beijing Jade Bird AIT	**118**	–
Wuhan BIS	**41**	–
	2,631	663
Purchase of inventories:		
Beijing Tianqiao	**2,647**	–
Guangzhou BIS	**250**	–
Beijing SHW	**32**	–
	2,929	–
Rental expense for an office building charged by Beida Jade Bird	**905**	976
Interest income on an amount due from Beida On-line	**459**	765
Purchase of a 100% equity interest in Beida Jade Bird Overseas Education Limited from HK Jade Bird Sci-Tech *(note 30(b))*	**–**	413
Disposal of a 20% equity interest in Beijing Silicon Innovation to Beida Yu Huan *(note 30(a))*	**–**	1,200
Purchase from Beida Jade Bird of a 44% equity interest in and a loan receivable from Chengjian Donghua *(note 16)*	**314,191**	–
Purchase of property, plant and equipment from Beijing Tianqiao	**1,421**	–

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the usual course of business.

33. RELATED PARTY TRANSACTIONS (Continued)

(c) Pursuant to the Technology Licence Agreement entered into between the Company and Beijing Tianqiao dated 17 April 2000, Beijing Tianqiao has granted an exclusive licence to the Company for the use of certain GPS technology for a period of 10 years, in return for a royalty fee calculated at a rate of 3% on the total sales of products using this technology. No royalty fee was charged by Beijing Tianqiao to the Group in 2005 and 2004 as the Group did not have any sales of products using this GPS technology in these years.

(d) Pursuant to the JB-CASE Technology Licence Agreement and Trademark Licence Agreement entered into between the Company and Jade Bird Software dated 17 April 2000, Jade Bird Software granted to the Company a non-exclusive licence to use the JB-CASE technology and certain of its trademarks for a period of 10 years for nil consideration.

(e) During the year ended 31 December 2005, the Group purchased certain computer products amounting to RMB80,456,000 (2004: RMB45,600,000) which were handled by Beijing Tianqiao on behalf of the Group at no charge.

(f) The Company has entered into an office building operating lease agreement with Beida Jade Bird, with a right of renewal exercisable by the Company. Pursuant to this agreement, the expiry date of this lease agreement is 1 April 2006.

(g) As at 31 December 2005, the Group's and the Company's interest-bearing bank loan of US$29 million (equivalent to approximately RMB234,036,000) was guaranteed by a shareholder of the Company (note 25).

As at 31 December 2004, a shareholder of the Company and a subsidiary of Peking University, the ultimate controlling shareholder of the Company, had jointly guaranteed the Group's and the Company's interest-bearing bank loans of up to US$37.5 million (equivalent to approximately RMB310,017,000) as at the balance sheet date (note 25).

33. RELATED PARTY TRANSACTIONS (Continued)

(h) Included in the consolidated balance sheet and the balance sheet are the following balances with shareholders and related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due from an associate *(note 16)*:				
Chengjian Donghua	**61,600**	–	**61,600**	–
Trade receivables from related parties *(note 19)*:				
Jade Bird Security System	**37**	5	**–**	5
Beijing Jade Bird IS	**25**	–	**–**	–
Beijing SHW	**94**	–	**94**	–
Hainan Jade Bird	**–**	12	**–**	12
Guangzhou BIS	**29**	117	**29**	117
Chengdu Jade Bird	**–**	12	**–**	12
Shenyang BIS	**–**	61	**–**	61
	185	207	**123**	207
Prepayments, deposits and other receivables from a related party *(note 22)*:				
Jade Bird Huaguang	**–**	200	**–**	200
Due from shareholders *(note 20)*:				
Beijing Tianqiao	**–**	40,000	**–**	40,000
Beida Jade Bird	**494**	1,781	**494**	781
Shanghai Jade Bird	**–**	2,000	**–**	2,000
	494	43,781	**494**	42,781
Due from related parties *(note 21)*:				
Beijing Tianqiao	**298**	–	**298**	–
Beida Sci-Tech	**–**	47,000	**–**	47,000
Beida On-line	**–**	8,313	**–**	8,313
HK Jade Bird Sci-Tech	**–**	287,321	**–**	–
Shenzhen Jade Bird	**–**	3,600	**–**	3,600
Jade Bird Security System	**–**	1,817	**–**	–
Beijing Huaguang	**2**	842	**–**	842
Beida Babylon	**8**	–	**8**	–
Jade Bird Sihua	**27**	–	**27**	–
Beijing BIS	**24**	–	**24**	–
Wisdom New Group	**–**	32,860	**–**	–
	359	381,753	**357**	59,755
Trade payable to a shareholder *(note 26)*:				
Beijing Tianqiao	**–**	32	**–**	–

33. RELATED PARTY TRANSACTIONS (Continued)

(h) Included in the consolidated balance sheet and the balance sheet are the following balances with shareholders and related parties: (Continued)

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables to related parties *(note 26)*:				
Beijing Tianqiao	**138**	–	**–**	–
Beijing Jade Bird IS	**49**	–	**–**	–
Beijing SHW	**29**	–	**29**	–
Western Jade Bird	**16**	–	**16**	–
	232	–	**45**	–
Advances from shareholders				
Beijing Tianqiao	**–**	266	**–**	190
Shanghai Jade Bird	**–**	123	**–**	6
	–	389	**–**	196
Advances from related parties:				
Beijing Tianqiao	**150**	–	**150**	–
Guangzhou BIS	**45**	–	**–**	–
Shanghai BIS	**5**	–	**–**	–
	200	–	**150**	–
Due to shareholders *(note 20)*:				
Beida Jade Bird	**1,106**	860	**583**	583
Beijing Tianqiao	**–**	120	**–**	45
Shanghai Jade Bird	**–**	281	**–**	281
	–			
	1,106	1,261	**583**	909
Due to related parties *(note 21)*:				
Beijing Tianqiao	**3,498**	–	**3,498**	–
Beijing Jade Bird IS	**1,913**	–	**1,913**	–
Beida Education	**29**	–	**29**	–
Shanghai Jade Bird IS	**254**	–	**254**	–
Jade Bird Security System	**–**	387	**–**	–
Shenzhen Jade Bird	**355**	355	**356**	355
HK Jade Bird Sci-Tech	**1,165**	1,141	**–**	–
Guangzhou BIS	**–**	110	**–**	110
	7,214	1,993	**6,050**	465

33. RELATED PARTY TRANSACTIONS (Continued)

(i) Compensation of key management personnel of the Group:

	Group	
	2005	2004
	RMB'000	*RMB'000*
Short term employee benefits	**3,010**	2,870
Post-employment benefits	**81**	56
	3,091	2,926

Further details of directors' and supervisors' emoluments are included in note 7 to these financial statements.

34. FINANCIAL INSTRUMENTS

(a) Fair value

Financial assets of the Group and the Company mainly include cash and cash equivalents, non-pledged time deposits, trade receivables, available-for-sale equity investments, held for trading investments, due from shareholders, due from related parties, deposits and other receivables. Financial liabilities of the Group and the Company mainly include interest-bearing bank loans, trade payables, other payables, due to shareholders and due to related parties.

The carrying amounts of the Group's and the Company's financial instruments approximated their fair value as at the balance sheet date. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(b) Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

For the year ended 31 December 2005

Fixed rate

	Within 1 year *RMB'000*	**1 to 2 years** *RMB'000*	**2 to 3 years** *RMB'000*	**3 to 4 years** *RMB'000*	**4 to 5 years** *RMB'000*	**More than 5 years** *RMB'000*	**Total** *RMB'000*
Cash assets	**234,557**	**–**	**–**	**–**	**–**	**–**	**234,557**
Interest-bearing bank loans	**–**	**–**	**–**	**20,000**	**–**	**–**	**20,000**

Floating rate

	Within 1 year *RMB'000*	**1 to 2 years** *RMB'000*	**2 to 3 years** *RMB'000*	**3 to 4 years** *RMB'000*	**4 to 5 years** *RMB'000*	**More than 5 years** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank loans	**234,036**	**–**	**–**	**–**	**–**	**–**	**234,036**

For the year ended 31 December 2004

Fixed rate

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	3 to 4 years *RMB'000*	4 to 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*
Cash assets	322,066	–	–	–	–	–	322,066

Floating rate

	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	3 to 4 years *RMB'000*	4 to 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	310,017	–	–	–	–	–	310,017

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 64% (2004: 39%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 79% (2004: 25%) of costs are denominated in the unit's functional currency.

Interest rate risk

The Group's results are affected by changes in interest rates due to the impact of such changes on interest income and interest expense on bank balances and interest-bearing bank loans. The Group's policy is to obtain the most favourable interest rates available.

Liquidity risk

The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit lines to address any short-term funding requirements.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

36. POST BALANCE SHEET EVENT

On 24 February 2006, the freeze order imposed on the land of the Dongzhimen Project currently undertaken by Chengjian Donghua, the sole associate of the Company, was discharged by the People's High Court of Beijing upon the provision of a guarantee by 中投信用擔保有限公司 for the performance of the obligations of Chengjian Donghua as explained in details in note 32 to these financial statements. The service fee charged by 中投信用擔保有限公司 in connection with this guarantee is RMB7,500,000. As of the date of issuing these financial statements, this service fee has yet to be settled by Chengjian Donghua with 中投信用擔保有限公司 as Chengjian Donghua is currently negotiating with 中投信用擔保有限公司 with a view to reducing the service fee. Pursuant to the guarantee agreement entered into between Chengjian Donghua and 中投信用擔保有限公司, and as further confirmed by 中投信用擔保有限公司, except for the service fee of RMB7,500,000 charged by 中投信用擔保有限公司 to Chengjian Donghua in consideration for the provision of guarantee service, there are no other companies, including but not limited to the Company, or individuals providing any form of asset pledge, indemnity, counter guarantee or any other forms of financial support to 中投信用擔保有限公司 in connection with its guarantee provided for the performance of the obligations of Chengjian Donghua as aforesaid.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 May 2006.

NOTICE IS HEREBY GIVEN THAT the 2005 annual general meeting ("AGM") of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") will be held at Meeting Room 301, 3rd Floor, Beida Jade Bird Building, No. 207 Chengfu Road, Haidian District, Beijing, the PRC on 30 June 2006 (Friday) at 11:00 a.m. for the following purposes:

I. As ordinary resolutions:

1. To consider and approve Report of the Directors for the year ended 31 December 2005;

2. To consider and approve Report of the Supervisory Committee for the year ended 31 December 2005;

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

4. To consider and approve the dividend distribution proposal for the year ended 31 December 2005;

5. To consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year ended 31 December 2005;

6. To consider and approve the proposed re-appointment and appointment to the Third Session of the Board of Directors of the Company;

   The Directors proposed to be re-appointed or appointed to the Third Session of the Board of Directors of the Company (with a term of three years commencing from the conclusion of the 2005 annual general meeting to the date of the 2008 annual general meeting to be convened in 2009) are as follows:

   Executive Directors

Mr. Xu Zhen Dong, *Chairman*	(proposed for reappointment)
Mr. Xu Zhi Xiang, *President*	(proposed for reappointment)
Mr. Zhang Wan Zhong	(proposed for reappointment)

   Non-executive Directors

Mr. Lo Lin Shing, Simon	(proposed for reappointment)
Mr. Liu Yong Jin	(proposed for reappointment)
Mr. Hao Yi Long	(proposed for reappointment)
Mr. Li Li Xin	(proposed for reappointment)

   Independent Non-executive Directors

Prof. Nan Xiang Hao	(proposed for reappointment)
Prof. Chin Man Chung, Ambrose	(proposed for reappointment)
Mr. Xie Wei	(proposed for appointment)

For biographical details of candidates for Directors, please refer to Note (I) to this Notice of Annual General Meeting.

7. To consider and approve the proposed re-appointment to the Third Session of the Supervisory Committee of (with a term of three years commencing from the conclusion of the 2005 annual general meeting to the date of the 2008 annual general meeting to be convened in 2009) the Company;

   The Supervisors proposed to be re-appointed to the Third Session of the Supervisory Committee are as follows:

Mr. Zhang Yong Li	(proposed for reappointment)
Mr. Du Hong	(proposed for reappointment)
Ms. Lu Qing	(proposed for reappointment)
Mr. Li De Yong	(proposed for reappointment)
Ms. Dong Xiao Qing	(proposed for reappointment)

   The biographical details of candidates for Supervisors, please refer to Note (J) to this Notice of Annual General Meeting.

8. To consider and approve the remuneration proposals for Directors and Supervisors of the Company for the year ending 31 December 2006;

9. To consider and approve the proposed re-appointment of Messrs. Ernst & Young as auditors for the year ending 31 December 2006 and authorize the Directors to fix their remuneration;

II. As special resolutions:

Special Resolutions

10. "**THAT**

   (I) there be granted to the Board of Directors of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

      (a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors of the Company may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

      (b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of Directors of the Company otherwise than pursuant to any share option scheme adopted by the Company shall not exceed:

(i) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue; and/or

(ii) 20 per cent of the aggregate nominal amount of H Shares of the Company in issue,

in each case as at the date of this Resolution; and

(c) the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained:

For the purposes of this Resolution:

"Domestic Shares" means domestic invested shares in the share capital of the Company, of par value RMB0.1 each, which are held in Renminbi by PRC investors and promoters of the Company;

"H Shares" means the overseas-listed foreign invested shares in the share capital of the Company with a par value RMB0.1 each, and which are subscribed for and traded in Hong Kong dollars;

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(ii) the expiration of the 12-month period following the passing of this Resolution; or

(iii) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

(II) contingent on the Board of Directors resolving to issue shares pursuant to sub-paragraph (I) of this Resolution, the Board of Directors be authorized to:

(a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement);

(b) to determine the use of proceeds and to make all necessary filings and registrations with the relevant the PRC, Hong Kong and other authorities; and

(c) to increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (I) of this Resolution, to register the increased capital with the relevant authorities in the PRC and to make such amendments to the Articles of Association of the Company as it thinks fit so as to reflect the increase in registered capital of the Company."

By Order of the Board
Xu Zhen Dong
Chairman

Beijing, the PRC, 11 May 2006

Notes:

(A) The register of holders of H Shares of the Company will be closed from 31 May 2006 (Wednesday) to 30 June 2006 (Friday) (both days inclusive) during which period no transfer of H shares will be registered. Any holder of the H Shares of the Company and whose name appearing in the Company's register of holders of H Shares with Hong Kong Registrars Limited at the close of business hours on 30 May 2006 (Tuesday) and have completed the registration process, will be entitled to attend the Annual General Meeting.

The address of Hong Kong Registrars Limited is as follows:

46th Floor Hopewell Centre 183 Queen's Road East Hong Kong (Fax: 852-2865-0990)

(B) Holders of Promoter Shares or H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slips for attending the Annual General Meeting and return them to Hong Kong Registrars Limited at the address set out in Note (A) above (for holders of H Shares) or to the place of business of the Company (for Promoter Shares) not later than 20 days before the date of the Annual General Meeting, i.e. no later than 4:00 p.m. on 9 June 2006 (Friday).

The place of business of the Company is as follows:

3rd Floor, Beida Jade Bird Building No. 207 Chengfu Road Haidian District Beijing 100871 The PRC

(Fax No.: 86-10-6275-8434)

(C) Holders of H Shares entitled to attend the Annual General Meeting and having voting rights are entitled to appoint in writing one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. For shareholders appointing more that one proxy, its proxy may exercise its voting right by polling only.

(D) The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing such attorney or other authorization documents must be notarized.

(E) To be valid, holders of H Shares must lodge the notarially certified copy of that power of attorney or other authorization document and the proxy form with the Company's H Share Registrar in Hong Kong, Hong Kong Registrars Limited, the address of which is listed in Note (A) above, not less than 24 hours before the time of holding of the Annual General Meeting.

(F) Holders of Promoter Shares entitled to attend the Annual General Meeting and having voting rights are entitled to appoint one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. Notes (C) and (D) are also applicable to holders of Promoter Shares. In order to be valid, their proxy forms and authorization documents which must be returned to the Secretary to the Board of the Company 24 hours before the time of holding of the Annual General Meeting, the address of which is as indicated in Note (B) above.

(G) If an attorney is appointed to attend the Annual General Meeting, such attorney must present its identity document and power of attorney or authorisation document signed by the appointor or its legal representative, specifying the issue date of the document. If a legal person shareholder appoints a company representative to attend the Annual General Meeting, such representative must present its identity document and notarially certified copy of the resolution passed by the board or other authority or notarially certified copy of the licence issued by the holder of the legal person shares.

(H) The Annual General Meeting is anticipated to last for half a day. Shareholders attending in the meeting should be responsible for their own transportation and accommodation expenses.

(I) The biographical details of the Directors proposed for reappointment are set out on pages 11 to 13 of the 2005 annual report. The biographical details of the candidate proposed for appointment as an independent non-executive Directors are as follows:

Mr. Xie Wei, aged 42, is a certified public accountant and certified tax agent in the PRC. He has over thirteen years of experience in the external audit works with Zhonglei Public Accounting Firm in Beijing, the PRC since 1993 and now is the Vice Director Accountant of Zhonglei Public Accounting Firm. Mr. Xie has the appropriate financial and accounting experience required by the GEM Listing Rules, who is proposed to replace Mr. Wang Chao Yong who does not sit for re-election as an independent non-executive Directors for the Third Session of the Board of Directors of the Company.

(J) The biographical details of the Supervisors proposed for reappointment are set out on page 14 of the 2005 annual report.