

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



青鳥環宇
JADE BIRD UNIVERSAL
stock code: 8095

8.56	986.12
0.55	886.12
5.66	568.99
8.52	265.18
5.65	154.89
1.76	456.87
7.89	456.87
6.99	657.44
9.88	263.55
4.89	265.45
7.64	216.56
8.53	896.45
8.56	895.60
6.32	895.15
4.32	593.12
8.56	584.21
8.56	986.12
0.55	886.12
5.66	568.99
8.52	265.18
5.65	154.89
1.76	456.87
7.89	456.87
6.99	657.44
9.88	263.55
4.89	265.45
7.64	216.56
8.53	896.45
8.56	895.60
6.32	895.15
4.32	593.12
8.56	584.21
8.56	986.12
0.55	886.12
5.66	568.99
8.52	265.18
5.65	154.89
1.76	456.87
7.89	456.87
6.99	657.44
9.88	263.55
4.89	265.45
7.64	216.56
8.53	896.45
8.56	895.60
6.32	895.15
4.32	593.12
8.56	584.21
8.56	986.12
0.55	886.12
5.66	568.99
8.52	265.18
5.65	154.89
1.76	456.87
7.89	456.87
6.99	657.44
9.88	263.55
4.89	265.45
7.64	216.56
8.53	896.45
8.56	895.60
6.32	895.15
4.32	593.12
8.56	584.21
8.56	986.12
0.55	886.12
5.66	568.99
8.52	265.18
5.65	154.89
1.76	456.87
7.89	456.87
6.99	657.44
9.88	263.55
4.89	265.45
7.64	216.56
8.53	896.45
8.56	895.60
6.32	895.15
4.32	593.12
8.56	584.21



INTERIM REPORT

For the six months ended 30 June 2006



青鸟环宇
JADE BIRD UNIVERSAL

北京北大青鸟环宇科技股份有限公司

Beijing Beida Jade Bird Universal Sci-Tech Company Limited

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

(Stock Code: 8095)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

The board of directors (the "Board") of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
REVENUE	3	29,663	32,171	40,835	48,261
Other revenue and gains	3	404	611	348	339
Operating expenses:					
Materials and equipment		(23,133)	(26,232)	(33,251)	(38,700)
Employee costs		(4,379)	(3,767)	(8,941)	(8,589)
Depreciation of property, plant and equipment		(690)	(443)	(1,427)	(914)
Amortisation of goodwill and other intangible assets		–	(60)	(40)	(120)
Other operating expenses		(7,535)	(3,754)	(13,588)	(5,529)
Total operating expenses		(35,737)	(34,256)	(57,247)	(53,852)
LOSS FROM OPERATING ACTIVITIES		(5,670)	(1,474)	(16,064)	(5,252)
Finance income/(costs)					
Interest income		855	1,741	1,870	2,554
Interest expense		(4,529)	(4,866)	(8,978)	(8,490)
Share of loss of an associate		(350)	–	(659)	–
LOSS BEFORE TAX		(9,694)	(4,599)	(23,831)	(11,188)
Tax	4	–	–	–	–
LOSS FOR THE PERIOD		(9,694)	(4,599)	(23,831)	(11,188)
Attributable to:					
Equity holders of the parent		(10,057)	(4,256)	(23,479)	(9,863)
Minority interests		363	(343)	(352)	(1,325)
		(9,694)	(4,599)	(23,831)	(11,188)
DIVIDENDS	5	–	–	–	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
– Basic (RMB cents)	6	(0.85)	(0.36)	(1.98)	(0.83)

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	7	31,700	32,725
Goodwill		6,125	6,125
Other intangible assets		—	40
Interest in an associate		312,716	313,375
Available-for-sale equity investments		430,720	418,535
		781,261	770,800
CURRENT ASSETS			
Inventories		22,831	19,151
Trade receivables	8	19,621	18,630
Due from shareholders		493	494
Due from related parties		390	359
Prepayments, deposits and other receivables		87,529	90,806
Non-pledged time deposits with original maturity of more than three months when acquired		49,470	49,000
Cash and cash equivalents		163,748	185,557
		344,082	363,997
TOTAL ASSETS		1,125,343	1,134,797
CURRENT LIABILITIES			
Interest-bearing bank loans	9	231,872	234,036
Trade payables	10	12,216	12,191
Advances from customers		10,336	5,620
Accrued liabilities and other payables		28,746	29,118
Due to shareholders		1,200	1,106
Due to related parties		6,457	7,214
Tax payable		8,094	8,094
		298,921	297,379
NET CURRENT ASSETS		45,161	66,618
TOTAL ASSETS LESS CURRENT LIABILITIES		826,422	837,418
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	9	20,000	20,000
NET ASSETS		806,422	817,418
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	11	118,480	118,480
Reserves		686,586	697,230
		805,066	815,710
Minority interests		1,356	1,708
TOTAL EQUITY		806,422	817,418

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								Total equity RMB'000
	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	
At 1 January 2005	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	-	-	-	(32,492)	-	-	(32,492)	-	(32,492)
Net loss for the period	-	-	-	-	(9,863)	-	(9,863)	(1,325)	(11,188)
Dividend payable to minority shareholders of a subsidiary	-	-	-	-	-	-	-	(408)	(408)
At 30 June 2005	118,480	377,720	52,951	291,326	259,384	-	1,099,861	1,737	1,101,598
At 1 January 2006	118,480	377,720	53,787	68,711	208,568	(11,556)	815,710	1,708	817,418
Changes in fair value of available for-sale equity investments	-	-	-	15,944	-	-	15,944	-	15,944
Net loss for the period	-	-	-	-	(23,479)	-	(23,479)	(352)	(23,831)
Currency translation differences	-	-	-	-	-	(3,109)	(3,109)	-	(3,109)
At 30 June 2006	118,480	377,720	53,787	84,655	185,089	(14,665)	805,066	1,356	806,422

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Net cash outflow from operating activities	(4,625)	(16,058)
Net cash inflow/(outflow) from investing activities	(3,517)	49,708
Net cash outflow from financing activities	(13,667)	(28,562)
Net increase/(decrease) in cash and cash equivalents	(21,809)	5,088
Cash and cash equivalents at the beginning of period	185,557	164,542
Cash and cash equivalents at the end of period	163,748	169,630

Notes:

1. PRINCIPAL ACTIVITIES AND BASIS OF PRESENTATION

During the period, the Group was principally engaged in the research, development, manufacturing, marketing and sale of embedded systems, 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 meter-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 application of its existing embedded system products. In addition, the Group was also engaged in the property development activities during the period.

The unaudited financial statements for the six months ended 30 June 2006 of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). They have been prepared under 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.

The principal accounting policies used in the preparation of the unaudited financial statements for the six months ended 30 June 2006 are consistent with those adopted in the preparation of the consolidated annual financial statements of the Group for the year ended 31 December 2005.

2. IMPACT OF NEW/REVISED HKFRSs AND HKASs

The HKICPA has issued a number of new and revised HKFRSs and HKASs and Interpretations that are effective for accounting periods commencing on or after 1 January 2006. The adoption of the following HKFRSs and HKASs and Interpretations does not have any material effect on the financial statements of the Group.

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

3. REVENUE, 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 period. All significant intra-group transactions have been eliminated on consolidation.

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

	Three months ended 30 June		Six months ended 30 June	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Revenue				
Sale of embedded systems and related products	14,356	11,535	18,756	18,468
Sale of computer products	15,277	20,612	22,041	29,748
Provision of total solution services	30	24	38	45
	29,663	32,171	40,835	48,261
Other revenue				
Others	292	239	348	339
Gains				
Exchange gains, net	112	372	–	–
	404	611	348	339

4. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period (2005: 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. No profits tax or income tax has been provided for the six months ended 30 June 2006 (2005: Nil).

There was no material unprovided deferred tax for the six months ended 30 June 2006 (2005: Nil).

5. DIVIDENDS

The board of directors do not recommend the payment of an interim dividend for the three months ended 30 June 2006 (2005: Nil).

6. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of loss per share for the three and six months ended 30 June 2006 were based on the net loss attributable to ordinary equity holders of the parent of approximately RMB10,057,000 and RMB23,479,000, respectively, (2005: approximately RMB4,256,000 and RMB9,863,000) and on 1,184,800,000 shares (2005: 1,184,800,000 shares) and 1,184,800,000 shares (2005: 1,184,800,000 shares), in issue, respectively.

Diluted loss per share amounts for the three and six months ended 30 June 2006 had not been presented as no diluting events existed at 30 June 2006.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB3,426,000 (2005: RMB7,446,000) on the acquisition of property, plant and equipment.

8. 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.

An aged analysis of the trade receivables of the Group 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:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within 3 months	12,954	10,304
3 to 6 months	1,240	3,836
6 to 12 months	4,311	3,274
Over 12 months	1,116	1,216
	19,621	18,630

The fair value of the Group's trade receivables at 30 June 2006 was approximately equal to the corresponding carrying amount.

9. INTEREST-BEARING BANK LOANS

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Bank loans repayable:		
Within one year	231,872	234,036
In the second year	-	-
In the third to fifth years, inclusive	20,000	20,000
Beyond five years	-	-
	251,872	254,036
Less: Portion classified as current liabilities	(231,872)	(234,036)
Long term portion	20,000	20,000

All interest-bearing bank loans of the Group bore interest at rates ranging from approximately 6.55% to 7.49% per annum at 30 June 2006 (31 December 2005: 4.96% to 6.70%).

As at 30 June 2006, the Group's interest-bearing bank loan of US\$29 million (equivalent to approximately RMB231,872,000) was secured by a pledge of the Group's entire available-for-sale equity investments of RMB430,720,000 and guaranteed by a shareholder of the Company.

In addition, as at 30 June 2006, the Group's interest-bearing bank loans of RMB20,000,000 were secured by mortgage over certain of the Group's buildings, and machinery and equipment with net book values of RMB15,804,000 and RMB2,895,000, respectively, as at the balance sheet date.

10. 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:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within 3 months	5,731	6,106
3 to 6 months	974	849
6 to 12 months	1,393	229
Over 12 months	4,118	5,007
	12,216	12,191

The fair value of the Group's trade payables at 30 June 2006 was approximately equal to the corresponding carrying amount.

11. SHARE CAPITAL

	Number of shares	Nominal value RMB'000
Registered, issued and fully paid as at 31 December 2005 and 30 June 2006:		
– Promoter shares of RMB0.10 each	700,000,000	70,000
– H shares of RMB0.10 each	484,800,000	48,480
	1,184,800,000	118,480

12. RELATED PARTY TRANSACTIONS

Particulars of significant transactions between the Group and related parties are summarised below:

	Six months ended 30 June 2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Sales of embedded systems products and provision of total solution services to Beijing Tianqiao Beida Jade Bird Sci-Tech Co. Ltd.	625	303
Rental expense of an office building charged by Beida Jade Bird Limited	272	332

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

SEGMENT INFORMATION

(a) Analysis by business segment (consolidated) is as follows:

	NET	WFAS	ASIC (i)	GPS (ii)	IC (iii)	RMR (iv)	Computer	Property development	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended									
30 June 2006									
REVENUE									
Sales to external customers	4,086	14,708	-	-	-	-	22,041	-	40,835
RESULTS									
Segment results	(3,655)	(731)	-	-	-	-	45	-	(4,341)
Interest income									1,870
Interest expense									(8,978)
Share of loss of an associate								(659)	(659)
Unallocated corporate expenses									(11,723)
Loss before tax									(23,831)
Tax									-
Loss for the period									(23,831)
Six months ended									
30 June 2005									
REVENUE									
Sales to external customers	3,316	14,858	-	-	-	339	29,748	-	48,261
RESULTS									
Segment results	(2,925)	(27)	-	-	-	(27)	2,813	-	(166)
Interest income									2,554
Interest expense									(8,490)
Unallocated corporate expenses									(5,086)
Loss before tax									(11,188)
Tax									-
Loss for the period									(11,188)

- (i) The Group did not obtain any contracts for the production and sale of ASIC products for the period. 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.
- (ii) 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. 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 for the period, 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.
- (iii) The Group did not obtain any contracts for the production and sale of IC products for the period. 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.
- (iv) The Group only had minor transactions of the production and sale of RMR products in the corresponding period last year. 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.

(b) Analysis by geographical location (consolidated) is as follows:

	Six months ended	
	30 June	
	2006	2005
	RMB'000	RMB'000
Revenue		
Mainland China	37,326	36,778
Hong Kong	3,509	11,483
	40,835	48,261

FINANCIAL REVIEW

Revenue

The unaudited consolidated revenue (which is also the turnover) of the Group for the six months ended 30 June 2006 amounted to RMB40,835,000, representing a decrease of 15% as compared to the corresponding period last year.

The decrease in turnover was mainly due to the drop in the sale of computer products.

For the six months ended 30 June 2006, the turnover from the sales of embedded system products and related products and sale of computer products were approximately 46% and 54% respectively.

Operating Loss

The unaudited operating loss of the Group for the six months ended 30 June 2006 amounted to RMB16,064,000, representing an increase of 206% as compared to the corresponding period last year.

The increase in operating loss was mainly due to the increase in advertising expense substantially by RMB5,848,000 from the corresponding period last year.

Finance Cost

The unaudited interest expense of the Group for the six months ended 30 June 2006 was RMB8,978,000, nearly the same as compared to the corresponding period last year.

Net Loss Attributable to Ordinary Equity Holders of the Parent

The net loss attributable to ordinary equity holders of the parent and loss per share attributable to equity holders of the parent of the Group for the six months ended 30 June 2006 amounted to RMB23,479,000 and RMB1.98 cents respectively.

The significant increase in the net loss attributable to ordinary equity holders of the parent was mainly due to the increase in the operating loss (as explained above) and the overall shrinkage of the gross margin in addition to the decline in turnover.

Liquidity and Financial Resources

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

As at 30 June 2006, the Group had cash on hand of RMB213,218,000 and USD short term bank loans totaling RMB231,872,000 (USD29,000,000) and long term bank loans of RMB20,000,000. The aforesaid USD short term bank loans were secured by the pledge of the Group's entire available-for-sale equity investments, being its interest in 383,163,400 ordinary shares in Semiconductor Manufacturing International Corporation ("SMIC") with a carrying amount of RMB430,720,000 as at 30 June 2006, and guaranteed by a shareholder of the Company. The long term bank loans were secured by charge over certain of the Group's buildings, and machinery and equipment with net book values of RMB15,804,000 and RMB2,895,000, respectively, as at 30 June 2006.

Financial Ratios

As at 30 June 2006, the Group had a gearing ratio (the ratio of total bank borrowings to total equity) and the ratio of current liabilities to total assets of 31% and 27%, respectively.

Capital Commitment

As at 30 June 2006, the Group had no material capital commitments.

Contingent Liabilities

Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua"), the sole associate of the Company which was acquired from Beida Jade Bird Limited ("Beida Jade Bird"), a connected person (as defined in the GEM Listing Rules) of the Company 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 北京東華廣場置業有限公司 ("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 one of the joint venture partners of a joint venture company established in 2002 for the purpose of developing the Dongzhimen Project prior to the transfer of such development right to Chengjian Donghua.

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 as 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 GEM 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. However, by another order dated 15 May 2006, the People's High Court of Beijing, at the direction of the People's Supreme Court dated 21 March 2006, reinstated the "freeze order" on the ground that the guarantee provided by 中投信用擔保有限公司 does not satisfy the requirements of the relevant laws and regulations relating to the provision of guarantee by mid to small size enterprises. The relevant regulations provide that the amount guaranteed by a mid to small size enterprise shall not exceed 10% of the paid up capital of the relevant enterprise providing the guarantee. As the amount guaranteed exceeds the paid up capital of 中投信用擔保有限公司, the People's High Court of Beijing order the reinstatement of the freeze order dated 17 November 2005.

Under the above circumstances, 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. In the opinion of the directors, 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.

BUSINESS REVIEW

Network Security Products

In the first half of the year, the Group has completed the research and development of gateway firewall product series in respect of the Oracle application gateway, Telnet, pop3, DNS, smtp proxy and transparent proxy technology. The Group has now proceeded to the research and development of multi-links automatic backup and JBFW1-V4.0 gateway firewall product technology. The Group has produced eighty units of JB-FW1/100 and seven units of JB-FW1/1000 firewall system. During the period, the following projects were completed: Shenzhen Electronic Commerce Security Certificate Management Network Security System Project and Yanan Medical Insurance Managing Place Network Security System Project.

During the period Jade Bird Netsoft had completed the research and development of the network management system in respect of analysis situs function improvement technology. It also finished the development of upgraded NetSureXpert 5.3.0.1 version, Easy Master and Easy Web Systems. Jade Bird Netsoft is currently developing the B/S construction technology and multi-stage management technology.

During the period Jade Bird Netsoft completed the network management project of: Jiangsu Province Electronic Government Affairs Supervisory System Project, Shangdong Province Tobacco Company Desktop Management System Project, Science and Technology Department Information Centre Network Monitoring Management System Project, Zhejiang Province Public Security Department Network Supervisory System Project, Hunan Province Information Centre Synthesis Operation Supports Platform Project, China Environmental Monitoring Main Terminal Network Management System Project and Taiyuan Zezhou First Middle School Campus Network Synthesis Operation Management Software Project.

On the other hand, it also signed up the network management project of: Pingdingshan Wugang Municipal Government Network Management System Project, Nanyang Public Security Bureau Network Operation Supervisory System Project, Shenyang Coal Industry (Group) Company Network Management System Project, Shanghai Internet Switching Center Network System Project, Wuhan Military Economical Institute Campus Network Supervisory System Project, Nanchang Aviation Industry Institute Library Network System Project.

Wireless Fire Alarm System

The Group had completed the research and development of Application of 32-byte CPU technology on fire protection aspect, mix-organizing product upgrade testing and South Korean ODM non-address product. The Group is currently developing city fire alarm system networking high frequency numeric communication technology and South Korean ODM address product and controller. The Group also plans to research and develop the city fire alarm system networking product technology.

The Group has finished the projects of Shanghai Changning District Institution Office Building Project and Chongqing Future International Real Estate Project.

The Group signed up the following projects: Zhangjiakou High-Tech District Center Office Project and People's Liberation Army 2731 Armies Workshops Project.

Semiconductor Manufacturing International Corporation (“SMIC”)

SMIC reported an increase in capacity to 167,251 8-inch equivalent wafers per month and utilization rate of 93.5% in the second quarter of 2006.

On the technology front SMIC announced that the construction plan of its first 12-inch fab in Central China, located in Wuhan East Lake New Technology Development Zone, Hubei Province. The facility will be financed by an investment company associated with the Hubei Provincial Government, Wuhan Municipal Government and Wuhan East Lake New Technology Development Zone. The fab is scheduled to be completed by the end of 2007, and commercial production is scheduled to start in the first half of 2008. The monthly 12-inch wafer capacity is estimated to be 12,500 initially and increase progressively up to 20,000 – 25,000 in 2009.

GOVERNMENT APPROVALS AND AWARDS

The Group was awarded “The Quality Intelligence Rank Certificate (“Quality AAA level” and “Quality Remarkable Enterprise”)” jointly issued by Beijing Third Party Remarkable Quality Appraisal Center and Beijing Quality Association.

STAFF

At present, the Group employs approximately 204 employees. Among the employees, 4 of them possess the doctorate degree, 29 of them possess the master degree and 126 of them possess the bachelor degree. In addition, the research and development and technical support team of the Group has 99 members; while sales team has 65 members.

MARKETING ACTIVITIES

In April 2006, the Group had participated in the Fire Prevention Equipment Conference organised by Changchun Shidao Free Prevention Electronic Company.

In May 2006, the Group had participated in The 2006 Annual Meeting of Wuxi Construction and Electricity Association organised by Wuxi Civil Construction Project Association Electricity Academic Committee.

OUTLOOK

Network Security Products

Recently, following the increase in scale and complexity of the computer network of both the enterprises and government bodies in Mainland China, there are continuing demand for the integration services regarding the related application of software and hardware, office automation and management of databases. The Group is confident in providing its customers “a low cost service” in these information and technology aspects, so as to enhance the Group’s brand and extend its market share.

Wireless Fire Alarm System

The Group will focus on promoting the fire protection products in the overseas market, especially strive to procure UL certification on typical products to facilitate their entry into the international arena.

The Dongzhimen Project

In respect of the property business, the PRC government has adopted, and may adopt further, measures to slow down growth in the property sector. Despite these restrictive measures, the directors are confident that the development of Chengjian Donghua, the Group’s sole associate, of the Dongzhimen Project is still beneficial to the Company and its shareholders as a whole. The expected return from this project is promising in view of the scarcity in the availability of a single, large parcel of land in the city centre of Beijing and its prime location as the future transportation terminal of the airport express train, subway and long haul buses etc.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, 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:

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

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 the entire 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 H SHARES

Save as disclosed above, during the six months ended 30 June 2006, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30 June 2006, none of the directors or the supervisors had any rights to acquire H shares in the Company.

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

At 30 June 2006, 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)	Through a 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%

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 total issued 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 issued share capital) held by Beijing Beida Jade Bird Software System Co., which is beneficially wholly-owned by Peking University; and
 - (iii) 115,000,000 shares (representing approximately 9.71% of the Company's total issued 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 Investments Limited.
- (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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In the 2005 annual general meeting (the "2005 AGM") held on 30 June 2006, Mr. Wang Chao Yong did not sit for re-election as an independent non-executive director of the Company and, at the same time, the proposed appointment of a new independent non-executive director of the Company was not proceeded. Therefore, upon the conclusion of the 2005 AGM, there was only two independent non-executive directors (both of them do not have appropriate professional qualifications or accounting or related financial management expertise set out in Rule 5.05(2) of the GEM Listing Rules). The Company is not currently in compliance with Rule 5.05(2) of the GEM Listing Rules and the minimum number of independent non-executive directors as required under Rule 5.05(1) of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established its audit committee (the “Audit Committee”) with 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.

Following the retirement of Mr. Wang Chao Yong as disclosed in the paragraph “Independent Non-executive Directors” above, the Audit Committee comprises two members, namely, Professor Nan Xiang Hao and Professor Chin Man Chung, Ambrose, all are independent non-executive directors. Professor Nan Xiang Hao is the chairman of the Audit Committee. The Company is not currently in compliance with the minimum number of audit committee members as required under Rule 5.28 of the GEM Listing Rules. An Audit Committee was held to review the Group’s interim report and provide advice and recommendations to the Board of Directors.

INTERNAL CONTROL

The board of directors is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group’s assets and shareholders’ interests. The board of directors will from time to time conduct review of the effectiveness of the Group’s internal control systems through evaluation undertaken by the Audit Committee.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors’ securities transactions 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 throughout the period under review. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with such code of conduct and required standard of dealings throughout the period under review.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Save as the matters disclosed in the paragraphs “Independent Non-executive Directors” and “Audit Committee” above, the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S H SHARES

For the six months ended 30 June 2006, the Company did not purchase, sell or redeem any of the Company’s H shares.

By order of the Board
Xu Zhen Dong
Chairman

Beijing, the PRC, 4 August 2006