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)

Annual Report 年報

2006

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

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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.

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CORPORATE PROFILE

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 ("NET"), wireless fire alarm systems ("WFAS") 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. The Group also participates in real estate development activities after acquiring an associate in 2005.

FINANCIAL HIGHLIGHTS

RMB'000	**2006**	2005	2004	2003	2002
Turnover	**115,689**	143,733	130,503	199,740	250,463
Other Income	**8,146**	7,000	289,214	–	–
Operating expenses	**(137,123)**	(190,196)	(180,859)	(185,305)	(188,155)
Operating profit/(loss)	**(13,288)**	(39,463)	243,179	16,312	63,568
Profit/(Loss) before interest, tax, depreciation, amortisation and impairment of goodwill	**(10,529)**	(35,333)	255,811	25,745	72,681
Net profit/(loss) from ordinary activities attributable to equity holders of the Company	**(39,634)**	(59,843)	234,185	7,136	42,646
Earnings/(Loss) per share – basic (RMB cents)	**(3.3)**	(5.1)	20.4	0.7	4.4
Dividend per share – (RMB cents)	**N/A**	N/A	1	N/A	N/A
Total assets	**1,052,867**	1,134,797	1,188,482	995,055	877,955
Total liabilities	**299,995**	314,982	366,614	454,757	427,373
Minority interests	**4,279**	4,105	3,470	6,131	8,759
Equity attributable to equity holders of the Company	**748,593**	815,710	818,398	534,167	441,823

CORPORATE INFORMATION

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 *(resigned on 30 June 2006)*
Prof. Nan Xiang Hao
Prof. Chin Man Chung, Ambrose
Mr. Cai Chuan Bing *(appointed on 20 October 2006)*

SUPERVISORS

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

FINANCIAL CONTROLLER & COMPANY SECRETARY

Mr. Leung Wai Man, CPA, FCCA

HONG KONG SHARE REGISTRAR & TRANSFER OFFICE

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

LEGAL ADDRESS

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Haidian Road
Beijing 100080
PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PLACE OF BUSINESS IN HONG KONG

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Tel: (852) 2521-1668
Fax: (852) 2521-1669

WEBSITE OF THE COMPANY

www.jbu.com.cn

INDEPENDENT AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

CHAIRMAN'S STATEMENT

I am pleased to report to our shareholders that we have reduced our loss remarkably despite the sluggish market. We reduces our net loss to RMB40 million as compared with RMB60 million last year. It represents an improvement of over 33%.

The network security product segment produces an inspirational result this year. Turnover from the segment has climbed up twofold. Number of contracts signed increase while the quality of the customers enhances. Thanks for our research and development team, our network security products are able to diversify. Although we are still making loss for the year, we expect to see its turnaround in coming years. Our WFAS segment performs stable. It continues to be our profit contributor. Our WFAS products are highly recognized in our country. During the year, we have been awarded several times by various governmental and non-governmental authorities. Our contribution to PRC information technology is undoubtedly clear. On the other hand, the computer product retailing business experienced a keen competition. The performance of this segment was unsatisfactory. We will keep an eye on the market and readjust our strategy to turn the situation around.

Beside continuous focus on our embedded system products, we have also diversified our business to other sectors by the involvement in the Dongzhimen Project. This real estate project which combines both transportation hub and commercial and residential complex will definitely form the landmark of Beijing. I am confident this business, which we have 44% equity interest, is thriving. The project will bring along remarkable profits to the Group at last. I expect to see the project being substantially completed in the 4th quarter of 2007.

We have completed the SMIC securities loan arrangement in the 4th quarter of this year. The arrangement allowed the Group to obtain short-term working capital to repay its outstanding bank loan due to Agricultural Bank of China amounted to USD29 million. It is in the interest of the Company and shareholders as a whole.

Future is full of challenge. I will continue to lead the Company to overcome any problems we face and generate the greatest benefits for all shareholders.

Finally, I would like to take this opportunity to thank all our valuable shareholders, committed staff, supportive bankers and creditors for their contribution to the Company over the year.

XU ZHEN DONG
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

Overall

The Group's turnover amounted to RMB115,689,000 for the year ended 31 December 2006, representing a 19.5% decrease from last year. During the year, computer product retailing market faced wrinkle. Competition was stiff. Customers were sensitive to price. The Computer segment recorded a drop in turnover to RMB58,990,000, being 37.9% drop from last year. The feeble performance of this segment was alleviated by the improvements from WFAS segment and the NET segment. The former recorded turnover of RMB44,136,000, representing a 12.1% increase over last year. The latter recorded turnover of RMB12,563,000, representing a 49.3% increase over last year. During the year, the Group carried out attractive sales promotion to stimulate sales of WFAS products. The action enabled the Group to enlarge its market share. At the same time, the Group restructured its sales network for NET products and set up more representative offices to explore the market. More resources were allocated to product development and more product types were offered. Research and development sector was also enhanced by subdividing one team tailor-made for provision of one-to-one customer service.

The Group held a tight rein on resources and utilised them industriously. Expenditure was carefully planned before incurred. Approval procedures were strengthened to control the purchase function. Together with the corresponding effect from drop in sales, operating expenses of the Group reduced by 27.9% to RMB137,123,000.

Finance cost increased by 21.4% to RMB23,307,000 because interest rate had raised up by a range of approximately 1.26% to 1.71% during the year.

Giving the contribution from reduction of operating expenses outweighed the effect from drop in turnover, the Group reduced its loss for the year to RMB39,460,000 which was 33.4% lower than that of last year.

Dongzhimen Project

Dongzhimen Project ("Project"), the development of a transportation terminal and a large-scale commercial and residential complex, was started in August 2005. It is located in Beijing and is one of the major large-scale projects relating to the Olympic Games in Beijing in 2008. The Project is developed by Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua"), an associate of the Company. The Project includes a transportation terminal for high-speed trains linking the city and airport and other transports and a large-scale commercial and residential complex. During the year, the main structure of the Project had been substantially completed. Part of the hotel had also been built. The Group expects that Project can be substantially completed in late 2007.

PERFORMANCE REVIEW (Continued)

Available-for-sale financial assets – Semiconductor Manufacturing International Corporation ("SMIC")

According to the latest published information from SMIC, SMIC recorded sales of USD383.8 million (equivalent to approximately RMB2,997.6 million) for the three months ended 31 December 2006, representing an increase of 15.2% from the same quarter of 2005 and 4% from the third quarter of 2006. SMIC recorded revenues of USD1.46 billion (equivalent to approximately RMB11.4 billion) for the year ended 31 December 2006, representing an increase of approximately 25% from last year. The capacity of 8-inch equivalent wafers had been increased from 157,330 wafers at the end of 2005 to 182,250 wafers in the fourth quarter of 2006. Utilisation rate decreased from 95% in the first quarter of 2006 to 86.6% in the fourth quarter. 90 nanometer and 130 nanometer technologies contribute 57.4% of total wafer revenues in the fourth quarter of 2006.

Awards

During the year, the Group had been awarded for its performance and contribution. The following list extracts certain important awards the Group received during the year in chronograph order:

Quarter	Award
First	Top Ten Comfortable Brand of the National Fire Protection Equipment
Second	The Quality Intelligence Rank Certificate ("Quality AAA level" and "Quality Remarkable Enterprise")
Third	Nil
Forth	— Certificate of High Technological Product of Hebei Province 　— 點型定溫火災探測器、點型感煙火災探測器、火災顯示盤、火災報警控制器(聯動型)、區域火災報警控制器、手動火災報警按鈕 — Certificate of High Technological Enterprise of Hebei Province — Certificate of High Creditability Enterprise of Hebei Province

Capital commitment

The Group did not have material capital commitments as at 31 December 2006 (2005: RMB Nil).

Contingent liabilities

Chengjian Donghua is currently a defendant in a civil litigation in Beijing involving the land use rights of a parcel of land (the "Land") located in Beijing which is currently registered under the name of Chengjian Donghua. Shenzhen Development Bank ("SDB") is the plaintiff in such civil proceedings. The Land is used for the development of a transportation terminal and a large-scale commercial and residential complex (the "Dongzhimen Project"). The development right of the Dongzhimen Project was vested in Chengjian Donghua from a joint venture company established by Chengjian Donghua and Strong Ground Investment Limited ("Strong Ground") in 2002, namely 北京東華廣場置業有限公司 ("Beijing Donghua Company"), by the cancellation of the cooperation between Chengjian Donghua and Strong Ground.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW (Continued)

Contingent liabilities (Continued)

Beijing Donghua Company is the guarantor of a principal sum of RMB1,500 million together with interest accrued thereon lent by SDB to Zhongcai State-owned Enterprise Investment Company Limited and Shouchuang Network Company Limited. Based on documents filed with the People's High Court of Beijing, SDB alleges that the cancellation of the cooperation between Beijing Donghua Company and Strong Ground has infringed the right of SDB by removing such a main asset from Beijing Donghua Company and in turn has reduced the repaying power of Beijing Donghua Company and its claim comprised, among other things, an order that Beijing Donghua Company be adjudged liable as guarantor for the principal sum of RMB1,500 million (together with interest accrued thereon up to 31 October 2005 in the amount of RMB30.74 million) lent by SDB to Zhongcai State-owned Enterprise Investment Company Limited and Shouchuang Network Company Limited and an order for the transfer of the Land from Chengjian Donghua to Beijing Donghua Company.

On 17 November 2005, SDB 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 forming the subject of the order included the Land.

On 21 August 2006, in view of the provision of a guarantee by 北大資產經營有限公司 (Peking University Asset Management Company Limited) (a company wholly owned by the Peking University which is the ultimate controlling shareholder of three existing promoters of the Company and is therefore a connected person of the Company under the GEM Listing Rules), the People's High Court of Beijing discharged the freeze order upon application by Chengjian Donghua on the ground that the guarantee was able to satisfy the requirements of the relevant laws and regulations relating to the provision of guarantees by small- to mid-sized enterprises.

Under the above circumstances, although the above claim by SDB against Beijing Donghua Company and Chengjian Donghua is still pending adjudication by the People's High Court of Beijing, the Directors are of the view that Chengjian Donghua has a valid defence against the aforesaid claim by SDB. Therefore, no provision for the above claim was made in the financial statements of Chengjian Donghua.

SMIC SECURITIES LENDING ARRANGEMENT

On 15 December 2006, the Company entered into a securities lending agreement ("Securities Lending Agreement") with Nexgen Capital Limited ("NCL") pursuant to which Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited ("JBU Development"), a wholly-owned subsidiary of the Company, had lent and NCL had borrowed 323,888,000 fully paid ordinary shares of SMIC (the "Loan Shares"). NCL is a wholly-owned subsidiary of Nexgen Financial Holding Limited (the "Nexgen Group"), which is principally engaged in the provision of risk-based financial solutions to corporations, insurance companies, banks and other financial service firms, and high net worth individuals in Europe and Asia. NCL primarily undertakes capital market transactions of the Nexgen Group, which includes the provision of financial solutions such as equity derivative linked instruments designed for mergers and acquisitions, treasury management, corporate finance, risk transfer and private financing situations. The Loan Shares were mortgaged by JBU Development in favour of Agricultural Bank of China H.O. Banking Department ("Agricultural Bank"). In consideration for JBU Development providing the loan of the Loan Shares to NCL pursuant to the Securities Lending Agreement, NCL agreed to deposit with JBU Development a collateral in the amount of approximately USD28,295,000 (equivalent to approximately RMB221 million) on the 18 December 2006. The collateral had been paid in settlement of a loan of USD29,000,000 (equivalent to approximately RMB226 million) owing by the Company to Agricultural Bank and for the release of the mortgage over the Loan Shares, and the shortfall had been made up by the Company from its internal resources.

LIQUIDITY AND FINANCIAL RESOURCES

Net assets of the Group amounted to approximately RMB752,872,000 as at 31 December 2006. It represents an approximately 8.2% decrease from last year as a result of loss for the year and reduction of market value of the investment in SMIC. The Group had cash and cash equivalents of approximately RMB91,144,000, representing an increase of approximately 8.6% from last year. The Group had repaid its short term interest-bearing bank loans of RMB234,036,000 during the year after the SMIC securities lending arrangement. Current ratio, being the ratio of current assets to current liabilities, was approximately 1.33 (2005: approximately 1.23). Gearing ratio, being the ratio of total interest bearing debts to equity, was approximately 32.0% as at 31 December 2006 (2005: approximately 31.0%). The Group had a net asset per share of RMB0.64 as at 31 December 2006 (2005: RMB0.69).

HUMAN RESOURCES

The Group employed around 204 staff as at 31 December 2006. Over 77% of them possess bachelor degree or above and 4 of them are doctorates. As the Group believes that it can stand to gain from research and development, it employed around 100 staff to carry out various projects. The sales and marketing team consisted of around 66 staff. The Group offered competitive remuneration package to its staff. Benefit in kinds including medical insurance and on-the-job training is also available.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Zhen Dong, aged 43, 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. Mr. Xu graduated from the Computer Science and Technology Department of Peking University in 1987. Mr. Xu is the chairman of the board of Beijing Beida Jade Bird Limited, Macat Optics and Electronics Company Limited, Beijing Beida Culture Development Company Limited and Beijing Chengjian Donghua Real Estate Development Company Limited.

Mr. Xu Zhi Xiang, aged 42, 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 Institute of Software, Chinese Academy of Sciences. Mr. Xu is also the president of Beida Jade Bird Group, the chairman of the board of Beijing Tianqiao Beida Jade Bird Company Limited, Beijing Beida Jade Bird BIS Company and Beijing Jade Bird Information Technology Education Development Company Limited, vice chairman of the board of Beijing Aptech Beida Jade Bird Information System Company Limited and vice chairman of Weifang Beida Jade Bird Huaquang Sci-Tech Company Limited.

Mr. Zhang Wan Zhong, aged 44, 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. He is also a Director of Beijing Chengjian Donghua Real Estate Development Company Limited, the vice president of Beijing Beida Jade Bird Limited, the director and general manager of Beijing Beida Education Management Company Limited and the president of Beijing Beida Education Investment Company Limited.

NON-EXECUTIVE DIRECTORS

Mr. Lo Lin Shing, Simon, aged 51, is a non-executive Director of the Company. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. He has been a member of the CME and IMM since 1986. Mr. Lo is the chairman of New World Cyberbase Limited and New World Mobile Holdings Limited and vice chairman of Tai Fook Securities Group Limited. He is also an executive director of International Entertainment Corporation and a non-executive director of Macau Prime Properties Holdings Limited, all of which are companies listed on the Stock Exchange of Hong Kong Limited.

Mr. Liu Yong Jin, aged 59, is a non-executive Director of the Company. Mr. Liu graduated from the School of Mathematical Sciences of Peking University with a major in computing mathematics. He is currently 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 and is responsible for human resources, administration and management of business.

Mr. Hao Yi Long, aged 43, is a non-executive Director of the Company. Mr. Hao graduated from the Department of Microelectronics of Peking University with a doctor degree. Mr. Hao is currently working with Peking University. Mr. Hao is the chairman of the board of Beijing Beida Yu Huan Microelectronics System Engineering Company, the director of Department of Microelectronics of Peking University and the vice president of Chinese Society of Micro/Nano Technology. Mr. Hao has published over 80 theses and acquired four State patents. Mr. Hao's research projects include the design methodology, modeling, database and simulation in Micro Electronical Mechanical System ("MEMS"), MEMS processes development, micro accelerometer and integrated circuits processes development.

Mr. Li Li Xin, aged 45, graduated from the Faculty of Economics and Management of Tsinghua University with a master's degree. Mr. Li has engaged in specialised investment, establishment, operation and management of enterprises for over ten years and has extensive experience in product development, technology development, market exploration, 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Nan Xiang Hao, aged 71, 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 University of Chinese Academy of Science. He was previously a consultant of The Fourth 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 41, is an independent non-executive Director and a member of the audit committee of the Company. Prof. Chin graduated from the Department of Oriental Languages and Cultures of Peking University with a master degree in Literature. Prof. Chin is currently a professor of the History Department of Fudan University and a researcher of morality and religion research centre of Tsinghua University. Prof. Chin has publication of thesis "Ya Fu Ji" and received the First Prize of "Ji Xianlin" Oriental Literature Prize.

Mr. Cai Chun Bing, aged 67, is an independent non-executive Director and a member of the audit committee of the Company. Mr. Cai graduated from Anhui University of Finance and Trade. Mr. Cai was division chief, deputy director and director of the Audit Committee of the Financial Department of the Ministry of Communications. Mr. Cai is currently the chairman of the Communications Branch of China Institute of Internal Audit. Mr. Cai is also a non-executive director of Yue Da Holdings Limited whose shares are listed on the Stock Exchange of Hong Kong Limited.

CHIEF SCIENTIST

Prof. Wang Yang Yuan, aged 72, is appointed as the Chief Scientist of the Company in May 2000. Prof. Wang is responsible for the Company's overall technology research and development and monitoring the investment in SMIC.

SUPERVISORS

Mr. Zhang Yong Li, aged 42, is chairman of the Company's supervisory committee. Mr. Zhang graduated from the Geology Department of Peking University with a bachelor degree in science and subsequently obtained a doctorate degree in engineering from China University of Geosciences. Mr. Zhang held various positions in the Beijing Beida Jade Bird Company Limited mainly in the areas of finance and administration. He has been appointed as deputy general manager and chief financial officer of Beijing Beida Jade Bird Company Limited since November 1998. He is also currently the director of Beijing Chengjian Donghua Real Estate Development Company Limited and the chairman of the supervisory committee of Macat Optics and Electronics Company Limited.

Mr. Du Hong, aged 54, is an independent supervisor of the Company. Mr. Du is currently the president of Institute of National Security Technology, the supervisor of Information System Security Testing and Evaluation Center of State Secrecy Administration, vice supervisor and secretary of Information Security Committee of China Computer Federation and vice supervisor of the Information Security Committee of Chinese Information Association. Mr. Du is a researcher. He has participated in the research and development of information security and secrecy over years. He has awarded 1 Second Prize of State Technological Achievement and 10 Province Level Technological Achievements.

SUPERVISORS (Continued)

Ms. Lu Qing, aged 42, 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. Ms. Lu obtained a master degree in business administration from HEC School of Management, Paris, France in 1996. Ms. Lu has extensive experience in investment consulting.

Mr. Li De Yong, aged 43, is an independent supervisor of the Company. Mr. Li holds a master's degree in law from the Peking University. Mr. Li has worked in China National Heavy Machine Corp. and qualified as a senior engineer. He had participated in various environmental protection projects and obtained extensive experience. He subsequently worked in the mechanical industrial human resource section of personnel department of Peking University and obtained 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 38, is an independent supervisor of the Company. Ms. Dong joined Beijing Beida Jade Bird Company Limited in March 1997 and was responsible for human resources management. She was appointed as the head of the human resources department of the Company in June 2000. Ms. Dong has over ten 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 40, is the general manager of Hebei Beida Jade Bird Universal Fire Protection Equipment Ltd., a subsidiary of the Company. Mr. Cai graduated with a bachelor degree in Physics from Peking University in 1990. Mr. Cai has worked in Beijing Sida Technology Development Centre, Chinese Academy of Social Sciences Market and Investment Committee. He was the general manager of Beijng Zhenghe Decoration Company. He possessed with extensive experience in technology and marketing. He joined Hebei Beida Jade Bird Universal Fire Protection Equipment Ltd as the general manager since October 2000.

Mr. Ma Rui Yong, aged 34, is the general manager of Wuhan Beida Jade Bird Netsoft Company Limited, a subsidiary of the Company. Mr. Ma graduated with a bachelor degree in Economics from Economy and Enterprise Management Department of Beijing Technology and Business University 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. Leung Wai Man, aged 36, is the financial controller, qualified accountant and the company secretary of the Company. He has over 14 years of experience in auditing, accounting, taxation and financial management in Hong Kong and the PRC. He holds a bachelor of Business Administration degree from the Chinese University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants. He is also an Associate Member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

Corporate governance has always been a key concern and thus is essential to the success of the Company. Good Governance practice inevitably enhances the effectiveness of the board and improves transparency of the Company. The Company believes that good governance practice not only can help monitor and regulate its business activities effectively but also can build up the reputation of the Company. The Company always put the protection of shareholders' interest in top priority.

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 ("Code of Conduct");

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.

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 for the year ended 31 December 2006.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a 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 2006.

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 2006.

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 third 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. Wang Chao Yong who resigned as an independent non-executive Director with effect from 30 June 2006 and Mr. Cai Chuan Bing who was appointed as an independent non-executive director on 20 October 2006, all Directors served for the whole of 2006. Their terms of office will last for three years from the conclusion of the 2005 annual general meeting to the date of the 2008 annual general meeting to be convened in 2009; except for Mr. Cai whose term started from 20 October 2006. The biographical details of the Directors are set out on pages 11 to 13 of this annual report.

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

	Note	**Attendance/ Number of meetings**
Executive directors		
Mr. Xu Zhen Dong, Chairman	(a)	4/4
Mr. Xu Zhi Xiang, President		4/4
Mr. Zhang Wan Zhong		4/4
Non-executive directors		
Mr. Lo Lin Shing, Simon	(b)	1/4
Mr. Liu Yong Jin	(c)	4/4
Mr. Hao Yi Long		4/4
Mr. Li Li Xin	(d)	4/4
Independent non-executive directors		
Mr. Wang Chao Yong *(resigned on 30 June 2006)*	(e)	2/4
Prof. Nan Xiang Hao		4/4
Prof. Chin Man Chung, Ambrose	(f)	4/4
Mr. Cai Chuan Bing *(appointed on 20 October 2006)*	(g)	1/4

THE BOARD (Continued)

Composition of the Board (Continued)

Notes:

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

(b) The meeting was attended by Mr. Lo Lin Shing, Simon's delegates.

(c) Mr. Liu Yong Jin's personally attended three of the meetings. The rest of the meetings were attended by his delegates.

(d) All meetings were attended by Mr. Li Li Xin's delegates.

(e) Mr. Wang Chao Yong personally attended two of the meetings. He resigned as an independent non-executive director of the Company on 30 June 2006.

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

(g) Mr. Cai Chuan Bing personally attended one of the meetings. He was appointed as an independent non-executive director of the Company on 20 October 2006.

In compliance with Rules 5.01 and 5.02, of the GEM Listing Rules, the Company has three independent non-executive directors (the "INED(s)"), namely Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose and Mr. Cai Chuan Bing, and Mr. Cai Chuan Bing has the appropriate accounting expertise. These INEDs 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 as set out in the Articles of Associations and in compliance with the CG Code, 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/her voting right and his/her vote will 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 have unrestricted access to the senior management of the Company.

THE BOARD (Continued)

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. Cai Chuan Bing whose contract commencement date was 20 October 2006, the Directors (including non-executive directors) of the Company have all been appointed for a term of three years to the date of the 2008 annual general meeting to be convened in 2009, 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 the nominated director's expertise in relevant area and whether he/she can contribute to the Company and has 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, Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose and Mr. Cai Chuan Bing, all are independent non-executive directors. Mr Prof. Nan Xiang Hao is the chairman of the Audit Committee. Mr. Cai Chuan Bing has the appropriate financial and accounting experience required by the GEM Listing Rules.

During the year, 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 2006).

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.

AUDIT COMMITTEE (Continued)

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

Committee members	Note	Attendance/ No. of meetings
Mr. Wang Chao Yong	(a)	2/4
Prof. Nan Xiang Hao		4/4
Prof. Chin Man Chung, Ambrose		2/4
Mr. Cai Chuan Bing	(b)	1/4

Notes:

(a) Mr. Wang Chao Yong resigned as an independent non-executive director of the Company on 30 June 2006.

(b) Mr. Cai Chuan Bing was appointed as an independent non-executive director of the Company on 20 October 2006.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") 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.

As at 31 December 2006, the Remuneration Committee comprises two members. The Chairman of the Remuneration Committee is Mr. Xu Zhi Xiang, an executive Director, and the other member is Prof. Nan Xiang Hao, an independent non-executive Director. Mr. Wang Chao Yong was originally a member of the Remuneration Committee until his resignation on 30 June 2006.

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

During the year, the Remuneration Committee held two meetings in which 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	Note	Attendance/ No. of meetings
Mr. Xu Zhi Xiang		2/2
Mr. Wang Chao Yong	(a)	2/2
Prof. Nan Xiang Hao		2/2

Note:

(a) Mr. Wang Chao Yong resigned as an independent non-executive director of the Company on 30 June 2006.

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 AUDITOR

For the year ended 31 December 2006, the Audit Committee of the Company had reviewed the performance of Messrs. RSM Nelson Wheeler ("RSM") as the external auditor of the Company and proposed to re-appoint RSM as the external auditor. For the year ended 31 December 2006, the Company agreed auditing fees of RMB750,000 payable to RSM. Subsequent to 31 December 2006, on 15 January 2007, RSM was appointed to provide services to the Company regarding the working capital statement of the circular issued in relation to the major transaction in relation to the provision of financial assistance.

RESPONSIBILITY FOR PREPARATION OF THE ACCOUNTS

The Directors acknowledge their responsibility for preparing the accounts of the Company. As at 31 December 2006, 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 is set out in the Independent Auditor's Report in this annual report.

INTERNAL CONTROL

For the year ended 31 December 2006, the Company had reviewed its internal control system to ensure its effectiveness and adequacy, which embraced financial, operational and risk management control.

INVESTOR RELATIONS

The Company meets with its shareholders and answers their enquiries in the annual or special general meetings. The Company also communicates with investors and media from time to time.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2006 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 96 of this Annual Report.

The directors do not recommend the payment of a final dividend for the year (2005: RMB Nil).

No interim dividend was declared in 2006 (2005: RMB Nil).

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 Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

For the year ended 31 December 2006, no share options were granted (2005: Nil). Details of the Company's share option scheme are set out in note 30 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 26 to the financial statements.

MATERIAL DISPOSALS OF SUBSIDIARIES

During the year ended 31 December 2006, the Group disposed of its entire equity interests in Beida Jade Bird Overseas Education Limited, a wholly-owned subsidiary of the Group to Hong Kong Jade Bird Science and Technology Limited for a consideration of approximately RMB413,000.

Save as the above, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies and investments during the year ended 31 December 2006.

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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, 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 32 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 32 to the financial statements, accumulated losses of approximately RMB126 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 34.6% of the total sales for the year while the largest customer accounted for 14.1% of the total sales for the year. Purchases from the Group's five largest suppliers also accounted for 62.8% of the total purchases for the year while the largest supplier accounted for 44.6% 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 note 37 to the financial statements. 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.

REPORT OF THE DIRECTORS

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. Li Li Xin

Independent non-executive directors:

Mr. Wang Chao Yong *(resigned on 30 June 2006)*
Prof. Nan Xiang Hao
Prof. Chin Man Chung, Ambrose
Mr. Cai Chuan Bing *(appointed on 20 October 2006)*

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. Cai Chuan Bing whose contract commencement date was 20 October 2006, each of the Directors and supervisors has entered into a service contract with the Company for a term of three years commencing from 30 June 2006 until the date of the 2008 annual general meeting to be convened in 2009.

As at 31 December 2006, 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 2006, the interests (including interests in shares 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 Shares	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 (Continued)

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 entired 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 30 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 2006, 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 2006, the following interests and short positions 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 total number of issued H Shares	Approximate percentage of the Company's issued share capital
1.	Peking University	(a)	Through a controlled corporation	310,000,000	44.28%	Not applicable	26.16%
2.	Beijing Beida Yu Huan Microelectronics System Engineering Company	(a)	Directly beneficially owned	85,000,000	12.14%	Not applicable	7.17%
3.	Beijing Beida Jade Bird Software System Company	(a)	Directly beneficially owned	110,000,000	15.71%	Not applicable	9.28%
4.	Beijing Beida Jade Bird Limited	(a)	Directly beneficially owned	115,000,000	16.43%	Not applicable	9.71%
5.	Heng Huat Investments Limited	(b)	Through a controlled corporation	205,414,000	29.34%	Not applicable	17.34%
6.	Dynamic Win Assets Limited	(b)	Directly beneficially owned	205,414,000	29.34%	Not applicable	17.34%
7	New World CyberBase Limited	(c)	Interest of controlled corporation	84,586,000	12.08%	Not applicable	7.14%
8.	New View Venture Limited	(c)	Directly beneficially owned	84,586,000	12.08%	Not applicable	7.14%
9.	Asian Technology Investment Company Limited		Directly beneficially owned	50,000,000	7.14%	Not applicable	4.22%
10.	Tai Fook Securities Company Limited	(d)	Directly beneficially owned	80,000,000	Not applicable	16.67%	6.82%
11.	Tai Fook Finance Company Limited	(d)	Through a controlled corporation	80,000,000	Not applicable	16.67%	6.82%
12.	Tai Fook (BVI) Limited	(d)	Through a controlled corporation	80,000,000	Not applicable	16.67%	6.82%

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

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 beneficially 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.

(d) The Shares are held by Tai Fook Securities Company Limited, which is directly wholly owned by Tai Fook Finance Company Limited and indirectly wholly owned by Tai Fook (BVI) 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 37 to the financial statements.

POST BALANCE SHEET EVENTS

The Group do not have significant post balance sheet events after year end.

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.

The Audit Committee comprises three members, namely, Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose and Mr. Cai Chuan Bing, 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 for the year ended 31 December 2006 and provide advice and recommendations to the Board of Directors.

CODE ON CORPORATE GOVERNANCE PRACTICES

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.

AUDITOR

RSM Nelson Wheeler had been appointed as auditor of the Company with effect from 4 September 2006 to fill the casual vacancy after the Company terminated Ernst & Young's appointment and Ernst & Young agreed to resign on the same date.

RSM Nelson Wheeler retire and a resolution for the reappointment of RSM Nelson Wheeler as auditor 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
23 March 2007

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders:

For the year ended 31 December 2006, 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, three meetings of the Supervisory Committee were held.

(1) 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 11 May 2006 to review the report of the 2005 annual results of the Company.

(2) The seventh meeting of the second session of the Supervisory Committee was held at the conference room on the third floor of the Company on 11 May 2006 to review the report of the 2006 first quarter results of the Company.

(3) The first meeting of the third session of the Supervisory Committee was held at the conference room on the third floor of the Company on 14 November 2006 to review the report of the 2006 third quarter 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.

REPORT OF THE SUPERVISORY COMMITTEE

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 RSM Nelson Wheeler for the year ended 31 December 2006 have reflected truly and fairly the conditions of the operating results and the assets 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. Save for the contingent liabilities set out in note 36 to the financial statements, 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 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
23 March 2007

INDEPENDENT AUDITOR'S REPORT

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

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

Report on the Financial Statements

We have audited the consolidated financial statements of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") set out on pages 34 to 96, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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. Except for the limitation in the scope of our work as described in the basis for qualified opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

a. As stated in the prior year's auditors' report issued by Ernst & Young on 11 May 2006, the evidence made available to them was limited because the information and explanations necessary to enable them to understand and assess the appropriateness of the clarification 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 北京潤澤匯亨商貿有限責任公司 as unrelated parties were insufficient. Further details are set out in note 24 to the financial statements. Any adjustment to the above might have a consequential effect on the classification and disclosure on the 2005 comparatives and the related notes.

b. As stated in note 18 to the financial statements, the directors of the Company considered that no goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost should be recognised in the consolidated financial statements for the acquisition of Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua") for the year ended 31 December 2005. However, we have not been provided with sufficient evidence to satisfy ourselves that the net fair value of the identifiable assets, liabilities and contingent liabilities of Chengjian Donghua as at the acquisition date is same as the cost of acquisition. There are no other satisfactory audit procedures that we could adopt to determine whether no goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is fairly stated in the financial statements. Any adjustment to the above might have a consequential effect on the results for the years ended 31 December 2005 and 2006 and net assets as at 31 December 2005 and 2006.

c. We have not been provided with sufficient evidence to satisfy ourselves about the appropriateness of the classification of New Legend Holdings Limited as unrelated party. Further details are set out in note 24 to the financial statements. There are no other satisfactory audit procedures that we could adopt to understand and assess if the classification of New Legend Holdings Limited as unrelated party is appropriate.

INDEPENDENT AUDITOR'S REPORT

d. As stated in note 36 to the financial statements, the service fee charged by 中投信用擔保有限公司 has not been accrued by Chengjian Donghua 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. We have not been provided with sufficient evidence to satisfy ourselves the service fee to be charged by 中投信用擔保有限公司. There are no other satisfactory audit procedures that we could adopt to determine the Group's share of the results of an associate should be adjusted against the amount of the service fee to be charged by 中投信用擔保有限公司. Any adjustment to this amount might have a consequential effect on the results for the year and net assets as at 31 December 2006.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on Other Matters

In respect alone of the limitation of our work relating to the matters described in the basis for qualified opinion paragraphs, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Material uncertainty relating to litigation against the Group's associate

Without qualifying our opinion, we draw attention to note 36 to the financial statements. Chengjian Donghua is the defendant in a lawsuit filed by Shenzhen Development Bank ("SDB") alleging liability as a guarantor for a principal sum of RMB1,500 million together with interest accrued thereon of RMB30.74 million up to 31 October 2005. Chengjian Donghua has filed a counter action, and the claim by SDB against Chengjian Donghua is still pending adjudication by the People's High Court of Beijing. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements of Chengjian Donghua. The outcome of this litigation could result in additional liabilities to Chengjian Donghua and/or the cessation of the development right of the property development project thereby causing uncertainty in the recoverability of the Group's investment in Chengjian Donghua of RMB312 million, details of which are set out in note 36 to the financial statements.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

23 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
TURNOVER	6	**115,689**	143,733
Other income	7	**8,146**	7,000
Materials and equipment		**(90,516)**	(119,921)
Staff costs		**(18,851)**	(18,060)
Depreciation and amortisation expenses		**(2,759)**	(2,388)
Impairment of goodwill		**–**	(1,742)
Other operating expenses		**(24,997)**	(48,085)
LOSS FROM OPERATIONS		**(13,288)**	(39,463)
Finance costs – interest on bank and other loans		**(23,307)**	(19,195)
Share of loss of an associate		**(1,439)**	(816)
(Loss)/gain on disposal of a subsidiary	34(a)	**(444)**	2,047
LOSS BEFORE TAX		**(38,478)**	(57,427)
Income tax expense	11	**(982)**	(1,781)
LOSS FOR THE YEAR	12	**(39,460)**	(59,208)
Attributable to:			
Equity holders of the Company		**(39,634)**	(59,843)
Minority interests		**174**	635
		(39,460)	(59,208)
LOSS PER SHARE			
– Basic	13	**(3.3) cents**	(5.1) cents

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**24,623**	26,859
Prepaid land lease payments	15	**5,780**	5,866
Goodwill	16	**6,125**	6,125
Other intangible assets	17	**–**	40
Investment in an associate	18	**250,336**	313,375
Available-for-sale financial assets	19	**394,847**	418,535
		681,711	770,800
CURRENT ASSETS			
Inventories	20	**12,670**	19,151
Trade receivables	21	**15,202**	18,630
Due from an associate	18	**61,600**	–
Due from a shareholder	22	**94**	494
Due from related parties	23	**390**	359
Prepayments, deposits and other receivables	24	**50,581**	90,806
Non-pledged time deposits with original maturity of more than three months when acquired	25	**139,475**	150,663
Cash and cash equivalents	25	**91,144**	83,894
		371,156	363,997
TOTAL ASSETS		**1,052,867**	1,134,797
CURRENT LIABILITIES			
Bank loans	26	**–**	234,036
Other loan	27	**220,996**	–
Trade payables	28	**11,822**	12,191
Advances from customers		**7,815**	5,620
Accruals and other payables		**27,369**	26,721
Due to a shareholder	22	**612**	1,106
Due to related parties	23	**2,305**	7,214
Current tax liabilities		**9,076**	8,094
		279,995	294,982

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
NET CURRENT ASSETS		**91,161**	69,015
TOTAL ASSETS LESS CURRENT LIABILITIES		**772,872**	839,815
NON-CURRENT LIABILITIES			
Bank loans	26	**20,000**	20,000
NET ASSETS		**752,872**	819,815
CAPITAL AND RESERVES			
Share capital	29	**118,480**	118,480
Reserves		**630,113**	697,230
Equity attributable to equity holders of the Company		**748,593**	815,710
Minority interests		**4,279**	4,105
TOTAL EQUITY		**752,872**	819,815

Approved by the Board of Directors on 23 March 2007

XU ZHEN DONG
Director

XU ZHI XIANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the Company								
	Share capital RMB'000	Capital reserve RMB'000 (Note 32 (b)(i))	Reserve funds RMB'000 (Note 32 (b)(ii))	Investment revaluation reserve RMB'000	Retained profits RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000	Minority interests RMB'000 (restated)	Total equity 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 financial assets	–	–	–	(255,107)	–	–	(255,107)	–	(255,107)
Translation differences	–	–	–	–	–	(11,556)	(11,556)	–	(11,556)
Net expense recognised directly in equity	–	–	–	(255,107)	–	(11,556)	(266,663)	–	(266,663)
(Loss)/profit for the year	–	–	–	–	(59,843)	–	(59,843)	635	(59,208)
Total recognised income and expense for the year	–	–	–	(255,107)	(59,843)	(11,556)	(326,506)	635	(325,871)
Transfer to reserve funds	–	–	836	–	(836)	–	–	–	–
At 31 December 2005	118,480	377,720	53,787	68,711	208,568	(11,556)	815,710	4,105	819,815
At 1 January 2006	118,480	377,720	53,787	68,711	208,568	(11,556)	815,710	4,105	819,815
Changes in fair value of available-for-sale financial assets	–	–	–	(15,423)	–	–	(15,423)	–	(15,423)
Translation differences	–	–	–	–	–	(12,060)	(12,060)	–	(12,060)
Net expense recognised directly in equity	–	–	–	(15,423)	–	(12,060)	(27,483)	–	(27,483)
(Loss)/profit for the year	–	–	–	–	(39,634)	–	(39,634)	174	(39,460)
Total recognised income and expense for the year	–	–	–	(15,423)	(39,634)	(12,060)	(67,117)	174	(66,943)
At 31 December 2006	**118,480**	**377,720**	**53,787**	**53,288**	**168,934**	**(23,616)**	**748,593**	**4,279**	**752,872**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(38,478)**	(57,427)
Adjustments for:			
Finance costs		**23,307**	19,195
Share of loss of an associate		**1,439**	816
Interest income		**(6,630)**	(4,713)
Net foreign exchange gains		**(233)**	(648)
Allowance for doubtful trade receivables		**4,058**	16,811
Allowance for doubtful other receivables		**117**	6,091
Amortisation of the prepaid land lease payments		**86**	51
Write-off of obsolete and slow-moving inventories		**911**	–
Reversal of allowance for doubtful trade receivables		**(3,962)**	(1,036)
Reversal of allowance for doubtful other receivables		**(4,295)**	–
Reversal of allowance for obsolete and slow-moving inventories		**(928)**	–
Allowance for obsolete and slow-moving inventories		**1,999**	1,002
Loss on disposal of property, plant and equipment		**12**	14
Loss/(gain) on disposal of a subsidiary	34(a)	**444**	(2,047)
(Gain)/loss on disposal of held for trading investments		**(6)**	57
Depreciation and amortisation expenses		**2,759**	2,388
Impairment of goodwill		**–**	1,742
Operating loss before working capital changes		**(19,400)**	(17,704)
Increase in prepaid land lease payments		**–**	(5,917)
Decrease in inventories		**4,380**	2,008
Decrease/(increase) in trade receivables		**3,087**	(6,758)
Decrease/(increase) in prepayments, deposits and other receivables		**52,923**	(66,873)
Decrease in trade payables		**(195)**	(2,490)
Increase/(decrease) in advances from customers		**2,307**	(4,207)
Increase in accruals and other payables		**157**	6,881
Net cash generated from/(used in) operating activities		**43,259**	(95,060)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**9,546**	(48,309)
Proceeds from disposal of property, plant and equipment		**3**	32
Purchases of property, plant and equipment		**(500)**	(19,400)
Purchases of available-for-sale financial assets		**(6,033)**	–
Purchases of held for trading investments		**(2,000)**	–
Disposal of a subsidiary	34(a)	**(71)**	(2)
Proceeds from disposal of held for trading investments		**2,006**	1,943
Interest received		**5,116**	4,193
Acquisition of minority interests		**–**	(534)
Net cash generated from/(used in) investing activities		**8,067**	(62,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**–**	288,359
Repayment of bank loans		**(226,940)**	(338,285)
Loans to others included in other receivables		**(48,200)**	(20,500)
Repayment from loans to others included in other receivables		**40,700**	–
Other loan raised		**220,996**	–
Decrease in amount due from a shareholder		**398**	43,287
(Increase)/decrease in amounts due from related parties		**(31)**	67,203
Decrease in amount due to a shareholder		**(494)**	(155)
(Decrease)/increase in amounts due to related parties		**(4,755)**	5,221
Interest paid		**(22,499)**	(19,529)
Net cash (used in)/generated from financing activities		**(40,825)**	25,601
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**10,501**	(131,536)
Effect of foreign exchange rate changes		**(3,251)**	(4,282)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**83,894**	219,712
CASH AND CASH EQUIVALENTS AT END OF YEAR		**91,144**	83,894

1. CORPORATE INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") as a sino-foreign joint stock limited liability company. The Company's H shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Rooms 1117/1119, Zhongcheng Building, Haidian Road, Beijing 100080, the PRC. The addresses of its principal place of business in the PRC and Hong Kong are 3rd Floor, Beida Jade Bird Building, No. 207 Chengfu Road, Haidian District, Beijing 100871, the PRC and Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong respectively.

The Company is engaged in the research, development, manufacturing, marketing and sale of embedded systems products, including network security products ("NET") and related products during the year. The Company is also engaged in sale of computer products ("Computer") and provision of total solution services through the application of its existing embedded system products. The principal activities of the Company's subsidiaries are set out in note 33 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted all the new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosure required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and by the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as 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. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associates (Continued)

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives 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

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

Construction in progress represents buildings under construction and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(f) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(g) Other intangible assets

Other intangible assets represent information technology rights and are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on the straight-line basis over their estimated useful lives of five years.

(h) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are investments not classified as financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial liabilities and equity instruments (Continued)

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue 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.

Revenue 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.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(s) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Segment reporting (Continued)

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

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

(t) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

(v) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Goodwill recognition on the investment in an associate

As disclosed in note 18 to the financial statements, management considered that neither goodwill nor excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost should be recognised in the consolidated financial statements for the years ended 31 December 2005 and 2006 related to the acquisition of an associate.

In making its judgement, management considered that due to (i) scale down on the current development plan on the property interest held by the associate; (ii) the delay on the development plan on the property interest of the associate; and (iii) Shenzhen Development Bank intended to take the legal action to sue the associate, neither goodwill nor excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost should be recognised. As a result, the directors of the Company regarded the fair value of an associate at the date of acquisition was same as the cost of acquisition.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of 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.

(a) *Property, plant and equipment and depreciation*

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31 December 2006 was RMB6,125,000 (2005: RMB6,125,000) after an impairment loss of RMBNil (2005: RMB1,742,000) was recognised during the year. Details of the impairment loss are given in note 16 to the financial statements.

(c) *Allowance for bad and doubtful debts*

The allowance for bad and doubtful debts of the Group is based on evaluation of the ability to collect and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) 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 49% (2005: 64%) of the Group's turnover is denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 62% (2005: 79%) of costs are denominated in currencies other than the units' functional currency.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Price risk

The Group's available-for-sale financial assets are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

(c) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade receivables and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

As the Group has significant interest-bearing assets, the Group's income and operating cash flows are dependent of changes in market interest rates.

The Group's exposure to interest-rate risk arises from its bank loans and other loan. These loans bear interests at variable rates varied with the then prevailing market condition.

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

The Group's turnover which represents the net invoiced value of goods sold to customers, after allowances for returns and trade discounts, and the value of services rendered, net of sales taxes are as follows:

	2006 **RMB'000**	2005 RMB'000
Sale of embedded systems and related products	**56,699**	47,494
Sale of computer products	**58,990**	95,045
Rendering of total solution services	**–**	1,194
	115,689	143,733

7. OTHER INCOME

	2006 **RMB'000**	2005 RMB'000
Interest income	**6,630**	4,713
Net foreign exchange gains	**233**	648
Others	**1,283**	1,639
	8,146	7,000

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into four main business segments:

– the manufacture and sale of NET;

– the manufacture and sale of wireless fire alarm systems ("WFAS");

– the trading of Computer; and

– the properties development.

(b) Secondary reporting format – geographical segments

The Group's principal markets are located in two main geographical areas:

– Mainland China

– Hong Kong

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.

8. SEGMENT INFORMATION (Continued)

Primary reporting format – business segments

	2006						
	NET RMB'000	WFAS RMB'000	Application specific integrated circuits ("ASIC") RMB'000	Remote automatic metre-reading systems ("RMR") RMB'000	Computer RMB'000	Properties development RMB'000	Total RMB'000
Revenue	12,563	44,136	–	–	58,990	–	115,689
Results							
Segment results	(3,349)	4,248	–	–	37	–	936
Interest income							6,630
Finance costs							(23,307)
Share of loss of an associate	–	–	–	–	–	(1,439)	(1,439)
Loss on disposal of a subsidiary							(444)
Unallocated corporate expenses							(20,854)
Loss before tax							(38,478)
Income tax expense							(982)
Loss for the year							(39,460)

NOTES TO THE FINANCIAL STATEMENTS

8. SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	2006						
	NET RMB'000	WFAS RMB'000	ASIC RMB'000	RMR RMB'000	Computer RMB'000	Properties development RMB'000	Total RMB'000
ASSETS							
Segment assets	59,125	38,804	–	–	13,542	61,600	173,071
Investment in an associate	–	–	–	–	–	250,336	250,336
Less: Intersegment assets							(53,330)
Unallocated corporate assets							682,790
Total assets							1,052,867
LIABILITIES							
Segment liabilities	8,634	60,122	–	–	7,525	–	76,281
Less: Intersegment liabilities							(53,330)
Unallocated corporate liabilities							277,044
Total liabilities							299,995
OTHER SEGMENT INFORMATION							
Capital expenditure	83	410	–	–	7	–	500
Depreciation and amortisation expenses	1,299	1,397	–	–	63	–	2,759
Allowance for doubtful other receivables	9	108	–	–	–	–	117
Allowance for doubtful trade receivables	56	–	–	–	4,002	–	4,058
Allowance for obsolete and slow-moving inventories	–	–	–	–	1,999	–	1,999
Reversal of allowance for doubtful other receivables	(68)	–	–	–	(4,227)	–	(4,295)
Reversal of allowance for doubtful trade receivables	(71)	(997)	–	–	(2,894)	–	(3,962)
Reversal of allowance for obsolete and slow-moving inventories	(928)	–	–	–	–	–	(928)

8. SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	2005						
	NET RMB'000	WFAS RMB'000	ASIC RMB'000	RMR RMB'000	Computer RMB'000	Properties development RMB'000	Total RMB'000
Revenue	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
Finance costs							(19,195)
Share of loss of an associate	–	–	–	–	–	(816)	(816)
Unallocated corporate expenses							(26,565)
Loss before tax							(57,427)
Income tax expense							(1,781)
Loss for the year							(59,208)
ASSETS							
Segment assets	20,519	54,367	2,493	–	140,910	–	218,289
Investment in an associate	–	–	–	–	–	313,375	313,375
Less: Intersegment assets							(15,405)
Unallocated corporate assets							618,538
Total assets							1,134,797
LIABILITIES							
Segment liabilities	13,540	29,851	1,244	–	35,154	–	79,789
Less: Intersegment liabilities	(2,319)	(2,683)	–	–	(10,403)	–	(15,405)
Unallocated corporate liabilities							250,598
Total liabilities							314,982
OTHER SEGMENT INFORMATION							
Capital expenditure	4,774	13,316	764	–	546	–	19,400
Depreciation and amortisation expenses	1,209	361	115	–	703	–	2,388
Impairment of goodwill	1,742	–	–	–	–	–	1,742
Allowance for doubtful other receivables	5,140	–	–	–	951	–	6,091
Allowance for doubtful trade receivables	6,250	2,885	370	–	7,306	–	16,811
Reversal of allowance for doubtful trade receivables	(16)	–	–	–	(1,020)	–	(1,036)
Allowance for obsolete and slow-moving inventories	578	–	70	–	354	–	1,002

8. SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

	Revenue		Segment assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
						(restated)
Mainland China	**73,034**	102,679	**591,913**	886,800	**493**	19,400
Hong Kong	**37,961**	41,054	**455,021**	247,997	**7**	–
Others	**4,694**	–	**5,933**	–	**–**	–
	115,689	143,733	**1,052,867**	1,134,797	**500**	19,400

9. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The Group's PRC employees are members of a central pension scheme operated by the local municipal government. The Group is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the central pension scheme is to meet the required contributions under the scheme.

10. 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:

Year ended 31 December 2006

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000
Directors					
Mr. Xu Zhen Dong	–	346	–	–	346
Mr. Xu Zhi Xiang	–	296	–	–	296
Mr. Zhang Wan Zhong	–	256	–	–	256
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
Mr. Cai Chuan Bing	50	–	–	–	50
	400	898	–	–	1,298
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
	400	1,048	–	–	1,448

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

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

Year ended 31 December 2005

	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments 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

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

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

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.

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.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2005: RMB Nil).

(b) Five highest paid employees

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are also set out in the directors' and supervisors' remuneration in note 10(a) above. Details of the remuneration of the five highest paid individuals are as follows:

	2006 **RMB'000**	2005 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,810**	2,088
Bonuses	**–**	900
Retirement benefits scheme contributions	**10**	12
	1,820	3,000

The remuneration of each of the highest paid individuals for the year ended 31 December 2006 fell within the band of nil to RMB1,026,100 (equivalent to Hong Kong dollars ("HK$") 1,000,000) (2005: RMB1,051,700 (equivalent to HK$1,000,000)).

During the year, no emolument were paid by the Group to any of the directors or supervisors or employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2005: RMB Nil).

11. INCOME TAX EXPENSE

	2006	2005
	RMB'000	RMB'000
Current tax – Mainland China	**982**	1,781

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2005: RMB Nil). Tax charge 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.

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. No provision for corporate income tax was made for the year as the Company incurred tax loss for the years ended 31 December 2005 and 2006.

The subsidiaries of the Group established in the PRC are generally subject to income tax on their taxable income at a combined national and local tax rate of 33%. Certain subsidiaries enjoy tax preferential rights and subject to a tax rate of 15% during the year.

11. INCOME TAX EXPENSE (Continued)

The reconciliation between the income tax expense and the product of loss before tax multipled by the PRC enterprise income tax rate is as follows:

	2006	2005
	RMB'000	RMB'000
Loss before tax	**(38,478)**	(57,427)
Tax at the domestic income tax rate of 33% (2005: 33%)	**(12,698)**	(18,951)
Tax effect of share of loss of an associate that is not deductible	**475**	269
Tax effect of income that is not taxable	**(338)**	(222)
Tax effect of expenses that are not deductible	**1,068**	2,196
Tax effect of tax losses not recognised	**12,475**	18,489
Income tax expense	**982**	1,781

At 31 December 2006, the Group has unused tax losses of RMB144,697,000 (2005: RMB89,681,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: RMB 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.

12. LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging/(crediting):

	2006 RMB'000	2005 RMB'000 (restated)
Advertising and promotion costs	**11,332**	10,528
Allowance for doubtful other receivables	**117**	6,091
Allowance for doubtful trade receivables	**4,058**	16,811
Allowance for obsolete and slow-moving inventories	**1,999**	1,002
Amortisation of other intangible assets	**40**	240
Auditors' remuneration	**1,000**	1,600
Cost of inventories sold	**90,508**	120,401
Depreciation of property, plant and equipment	**2,719**	2,148
(Gain)/loss on disposal of held for trading investments	**(6)**	57
Impairment of goodwill	**–**	1,742
Loss on disposal of property, plant and equipment	**12**	14
Net foreign exchange gains	**(233)**	(648)
Operating lease rentals in respect of land and buildings	**1,888**	1,924
Research and development costs	**4,418**	5,592
Reversal of allowance for doubtful other receivables	**(4,295)**	–
Reversal of allowance for doubtful trade receivables	**(3,962)**	(1,036)
Reversal of allowance for obsolete and slow-moving inventories	**(928)**	–
Staff costs (excluding directors' and supervisors' remuneration):		
Retirements benefits scheme contributions	**1,086**	828
Social security costs	**1,025**	968
Wages, salaries and bonuses	**15,292**	13,966
Write-off of obsolete and slow-moving inventories	**911**	–

Cost of inventories sold included staff costs and depreciation of RMB2,406,000 (2005: RMB1,336,000) which are included in the amount disclosed separately above.

13. LOSS PER SHARE

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately RMB39,634,000, (2005: RMB59,843,000) and the weighted average number of ordinary shares of 1,184,800,000 (2005: 1,184,800,000) in issue during the year.

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2006.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000 (restated)	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 2005	1,277	22,831	3,450	3,896	3,439	34,893
Additions	13,059	1,948	989	185	3,219	19,400
Transfers	3,467	162	–	–	(3,629)	–
Disposals	–	(204)	(309)	(167)	–	(680)
Exchange difference	–	–	–	(6)	–	(6)
At 31 December 2005 and 1 January 2006	17,803	24,737	4,130	3,908	3,029	53,607
Additions	171	166	66	97	–	500
Transfers	3,029	–	–	–	(3,029)	–
Disposals	–	(1,686)	(239)	(260)	–	(2,185)
Exchange difference	–	–	–	(11)	–	(11)
At 31 December 2006	**21,003**	**23,217**	**3,957**	**3,734**	**–**	**51,911**
Accumulated depreciation						
At 1 January 2005	155	20,604	3,336	1,142	–	25,237
Charge for the year	297	582	610	659	–	2,148
Disposals	–	(174)	(294)	(166)	–	(634)
Exchange difference	–	–	–	(3)	–	(3)
At 31 December 2005 and 1 January 2006	452	21,012	3,652	1,632	–	26,748
Charge for the year	1,257	716	112	634	–	2,719
Disposals	–	(821)	(1,349)	–	–	(2,170)
Exchange difference	–	–	–	(9)	–	(9)
At 31 December 2006	**1,709**	**20,907**	**2,415**	**2,257**	**–**	**27,288**
Carrying amount						
At 31 December 2006	**19,294**	**2,310**	**1,542**	**1,477**	**–**	**24,623**
At 31 December 2005	17,351	3,725	478	2,276	3,029	26,859

At 31 December 2006, the net carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to RMB14,162,000 (2005: RMB14,982,000). (note 26)

15. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under long term leases.

16. GOODWILL

	RMB'000
Cost	
At 1 January 2005	28,231
Arising on acquisition of a subsidiary	534
Elimination of accumulated amortisation upon the adoption of HKFRS 3	(20,898)
At 31 December 2005, 1 January 2006 and 31 December 2006	**7,867**
Accumulated amortisation	
At 1 January 2005	20,898
Elimination of accumulated amortisation upon the adoption of HKFRS 3	(20,898)
At 31 December 2005, 1 January 2006 and 31 December 2006	–
Accumulated impairment losses	
At 1 January 2005	–
Impairment loss recognised in the current year	1,742
At 31 December 2005, 1 January 2006 and 31 December 2006	**1,742**
Carrying amount	
At 31 December 2006	**6,125**
At 31 December 2005	6,125

Note:
Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. At 31 December 2006, before recognition of impairment losses, the carrying amount of goodwill had been allocated to manufacture and sale of WFAS segment.

16. GOODWILL (Continued)

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years with the residual period using the growth rate of 6%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's manufacture and sale of WFAS segment is 18.45%. The recoverable amount of the goodwill arising on acquisition at the subsidiary has been determined to be higher than its carrying amount and accordingly no impairment loss for goodwill was recognised during the year.

17. OTHER INTANGIBLE ASSETS

	Information technology rights
	RMB'000
Cost	
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	**1,200**
Accumulated amortisation	
At 1 January 2005	920
Amortisation for the year	240
At 31 December 2005 and 1 January 2006	1,160
Amortisation for the year	40
At 31 December 2006	**1,200**
Carrying amount	
At 31 December 2006	**–**
At 31 December 2005	40

18. INVESTMENT IN AN ASSOCIATE

	2006 RMB'000	2005 RMB'000
Unlisted investments:		
Share of net assets	**250,336**	251,775
Amount due from an associate	**–**	61,600
	250,336	313,375

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

Details of the Group's associate at 31 December 2006 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of equity interests	Principal activities
Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua")	The PRC	Registered capital of RMB50,000,000	44%	Properties development

Summarised financial information in respect of the Group's associate is set out below:

	2006 RMB'000	2005 RMB'000
At 31 December		
Total assets (note (a))	**2,639,042**	1,787,758
Total liabilities (note (b))	**(2,648,354)**	(1,793,799)
Net liabilities	**(9,312)**	(6,041)
Year ended 31 December		
Total revenue	**–**	–
Total loss for the year	**(3,271)**	(3,139)
Group's share of associate's loss for the year	**(1,439)**	(816)

18. INVESTMENT IN AN ASSOCIATE (Continued)

In 2005, 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 to acquire 44% equity interest in Chengjian Donghua of RMB314.19 million which comprised the acquisition cost of the equity interest amounted to RMB252.59 million and the book value of the shareholder loan of RMB61.6 million. According to the property valuation report issued by Chesterton Petty Limited on 30 June 2005 included in the circular of the Company issued on 30 June 2005 in relation to the "Major and connected transaction relating to the proposed acquisition of 44% equity interest in Chengjian Donghua" (the "Circular"), the market value of the property interest held by Chengjian Donghua ("Property") as at 30 April 2005 was RMB3,290,000,000 (details please refer to Appendix IV of the Circular). In addition, according to the accountants' report of Chengjian Donghua issued by Grant Thornton on 30 June 2005 included in the Circular, the net asset value of Chengjian Donghua as at 31 December 2004 was approximately RMB10,203,000. In preparing the consolidated financial statements of the Company for the years ended 31 December 2005 and 2006, the directors of the Company considered that there was neither goodwill nor excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost should be recognised as the fair value of Chengjian Donghua was same as the acquisition cost of Chengjian Donghua after consideration of the effect on (i) scale down on the current development plan on the Property of Chengjian Donghua; (ii) the delay on the development plan on the Property of Chengjian Donghua; and (iii) Shenzhen Development Bank ("SDB") intended to take the legal action to sue Chengjian Donghua (details of the legal action between SDB and Chengjian Donghua, please refer to note 36 to the financial statements).

Note:

(a) Consisting mainly of the following:

	2006	2005
	RMB'000	RMB'000
Property development costs	**2,154,696**	1,631,689
Other receivables*	**483,643**	155,691

* Subsequent to 31 December 2006 and prior to the date of issuing these financial statements, Chengjian Donghua transferred the legal title to certain of its receivables from two (2005: three) unrelated companies aggregating RMB90.4 million (2005: RMB113.1 million) as at 31 December 2006 to Beida Jade Bird. Chengjian Donghua and Beida Jade Bird signed a tri-partite agreement with each of the two (2005: 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.

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT IN AN ASSOCIATE (Continued)

(b) Consisting mainly of the following:

	2006 RMB'000	2005 RMB'000
Amount due to Beida Jade Bird	**2,141,694**	1,614,847#
Amount due to the Company	**61,600**	61,600
Amount due to Beijing Donghua Company, a fellow subsidiary of the Company	**42,448**	42,491
Payable to contractors	**398,408**	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 36 to these financial statements.

Since the property development project of Chengjian Donghua was still in the construction phase in 2006 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.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 RMB'000	2005 RMB'000
Equity securities, at fair value		
Listed in Hong Kong	**388,814**	418,535
Equity securities, at cost		
Unlisted outside Hong Kong	**2,078**	–
Debt instruments, at fair value		
Unlisted outside Hong Kong	**3,271**	–
Convertible option of debt instruments		
Unlisted outside Hong Kong	**684**	–
	394,847	418,535

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The unlisted equity securities with carrying value of RMB2,078,000 (2005: RMBNil) was carried at cost as they do not have an quoted market price in an active market and whose fair value cannot be reliably measured.

At 31 December 2006 the carrying amount of the Group's holdings in the following company exceeded 10% of the total assets of the Group:

Name	Place of incorporation	Issued and paid up capital	Shares held by the Group	Percentage of ownership interest	Principal activities
Semiconductor Manufacturing International Corporation ("SMIC")	Cayman Islands	18,432,756,463 ordinary shares of US$0.0004 each	383,163,400 ordinary shares of US$0.0004 each	2.08%	Fabricate semiconductors for customers based on their own or third parties' integrated circuit designs

At 31 December 2006, 323,888,000 ordinary shares of US$0.0004 each of SMIC ("Loaned Securities") with carrying amount approximately HK$327,127,000 (approximately RMB328,664,000) owned by the Group are lent to a financial institution. The Loaned Securities are transferred to the financial institution in exchange of the cash collateral amounted to approximately US$28,296,000 (approximately RMB220,996,000) ("Cash Collateral") paid by the financial institution and recorded as the other loan of the Group (note 27). The financial institution should redeliver the Loaned Securities to the Group and the Group should redeliver the Cash Collateral to the financial institution within one year.

20. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**9,880**	10,293
Work in progress	**1,424**	1,592
Finished goods	**3,932**	8,809
	15,236	20,694
Less: Allowance for obsolete and slow-moving inventories	**(2,566)**	(1,543)
	12,670	19,151

21. 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 3 to 6 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.

The aged analysis of the trade receivables, 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:

	2006	2005
	RMB'000	RMB'000
Within 3 months	**12,035**	10,304
3 to 6 months	**1,641**	3,836
6 to 12 months	**649**	3,274
Over 12 months	**877**	1,216
	15,202	18,630

22. DUE FROM/TO A SHAREHOLDER

The amount due from/to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

23. DUE FROM/TO 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% for the year ended 31 December 2005, all amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayment.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Advances to suppliers	**7,765**	8,207
Prepayments	**10,502**	21,010
Advances to staff	**1,267**	2,827
Deposits	**230**	494
Other receivables*	**30,817**	58,268
	50,581	90,806

* Subsequent to 31 December 2006 and prior to the date of issuing these financial statements, an aggregate amount of RMB29,994,000 (2005: RMB53,415,000) has been recovered by the Group.

During the year ended 31 December 2006, the Company entered into loan agreements with three domestic companies: 北京千思文化傳播有限公司, 北京鈞銘裝飾工程設計有限公司 and 北京火炬投資管理有限公司, details of which are as follows:

(i) According to the loan agreement signed by the Company with 北京千思文化傳播有限公司, an unrelated independent third party, on 19 May 2006, the Company made a loan of RMB14 million to 北京千思文化傳播有限公司. The loan is unsecured, interest-bearing at 6% per annum and with a term from 19 May 2006 to 18 March 2007. Prior to the date of issuing these financial statements, 北京千思文化傳播有限公司 fully repaid the amount of RMB14 million with the interest thereon due to the Company.

(ii) According to the loan agreement signed by the Company with 北京鈞銘裝飾工程設計有限公司, an unrelated independent third party, on 19 June 2006, the Company made a loan of RMB14 million to 北京鈞銘裝飾工程設計有限公司. The loan is unsecured, interest-bearing at 6% per annum and with a term from 19 June 2006 to 18 March 2007. Prior to the date of issuing these financial statements, 北京鈞銘裝飾工程設計有限公司 fully repaid the amount of RMB14 million with the interest thereon due to the Company.

(iii) According to the loan agreements signed by the Company with 北京火炬投資管理有限公司, an unrelated independent third party, on 15 May 2006 and 7 June 2006, the Company made loans totalled RMB20.2 million to 北京火炬投資管理有限公司. The loans are unsecured and interest-bearing at 6% per annum and the terms of the loan agreements are from 16 May 2006 to 15 May 2007 and from 7 June 2006 to 6 March 2007 respectively. During the year, the Company has waived all the interest thereon the loans and 北京火炬投資管理有限公司 fully repaid the amount of RMB20.2 million due to the Company.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

In addition, during the year, the Group entered into two purchase contracts with each of the two companies incorporated in the British Virgin Islands: Newbase Investments Limited and New Legend Holdings Limited for the purchase of computer equipment, details of which are as follows:

(i) According to two purchase contracts signed by the Group with Newbase Investments Limited, an unrelated independent third party, in March 2006 and June 2006 for total purchase consideration of US$2 million and US$1 million respectively, the Group was required to make an advance payment of 100% and 100% of the purchase consideration to Newbase Investments Limited amounting to US$2 million and US$1 million on 24 March 2006 and 5 June 2006 respectively. These purchase transactions were subsequently terminated by the Group and Newbase Investments Limited. Cash advances amounted to US$2 million and US$1 million were settled on 27 March 2006 and 12 June 2006 respectively.

(ii) According to two purchase agreements signed by the Group with New Legend Holdings Limited, an unrelated independent third party, in December 2006 for total purchase consideration of HK$12 million and US$1.21 million respectively, the Group was required to make an advance payment of 100% and 100% of the purchase consideration to New Legend Holdings Limited amounted to HK$12 million, US$110,000 and US$1.1 million on 12 December 2006, 12 December 2006 and 13 December 2006 respectively. These purchase transactions were subsequently terminated by the Group and New Legend Holdings Limited. Cash advances amounted to HK$12 million and US$1.21 million were settled on 14 December 2006 and 20 December 2006 respectively.

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 advance totalling RMB16 million were subsequently made to 北京火炬投資管理有限公司 by the Company. In 2006, prior to the date of issuing the financial statements for the year ended 31 December 2005, 北京火炬投資管理有限公司 settled a total amount of RMB9.4 million due to the Company. For the remaining RMB6.6 million, allowance for doubtful debts of RMB3.3 million was made as at 31 December 2005. In 2006, 北京火炬投資管理有限公司 further settled a total amount of RMB6.6 million and the allowance for doubtful debts of RMB3.3 million made at 31 December 2005 was reversed during the year.

(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. In 2006, 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.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

(iii) According to the 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 purchase 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. In 2006, 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 the year ended 31 December 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. In 2006, 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.

25. DEPOSITS AND CASH AND CASH EQUIVALENTS

	2006 RMB'000	2005 RMB'000 (restated)
Cash and bank balances	91,144	83,894
Time deposits	139,475	150,663
	230,619	234,557
Less: Non-pledged deposits with original maturity of more than three months when acquired	(139,475)	(150,663)
Cash and cash equivalents	91,144	83,894

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.

26. BANK LOANS

	2006 RMB'000	2005 RMB'000
Bank loans are repayable as follows:		
On demand or within one year	–	234,036
In the second year	20,000	–
In the third to fifth years, inclusive	–	20,000
	20,000	254,036
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	(234,036)
Amount due for settlement after 12 months	20,000	20,000

26. BANK LOANS (Continued)

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2006	2005
	RMB'000	RMB'000
US dollars ("USD")	**–**	234,036
RMB	**20,000**	20,000
	20,000	254,036

During the year, the average interest rates paid for bank loans were ranging from 6.22% to 8.41% (2005: 4.96% to 6.70%).

Bank loans of RMB20,000,000 (2005: RMB254,036,000) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

At 31 December 2006, bank loans of RMB20,000,000 (2005: RMB20,000,000) are secured by a charge over certain property, plant and equipment of the Group (note 14).

At 31 December 2005, bank loan of RMB234,036,000 is secured by a pledge of the Group's entire available-for-sale financial assets and a guarantee executed by a shareholder of the Company.

27. OTHER LOAN

The Group's other loan represented the Cash Collateral received from a financial institution in exchange of the available-for-sale financial assets lent to them (note 19). The Cash Collateral is denominated in USD and repayable within one year. The effective interest rate of the Cash Collateral is USD-LIBOR one month rate plus 4%.

28. TRADE PAYABLES

The aged analysis of the trade payables, 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:

	2006	2005
	RMB'000	RMB'000
Within 3 months	**7,022**	6,106
3 to 6 months	**504**	849
6 to 12 months	**212**	229
Over 12 months	**4,084**	5,007
	11,822	12,191

29. SHARE CAPITAL

	2006	2005
	RMB'000	RMB'000
Registered, issued and fully paid:		
700,000,000 domestic 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

30. 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 Chinese 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.

During the year, no share options have been granted under the aforesaid scheme.

NOTES TO THE FINANCIAL STATEMENTS

31. BALANCE SHEET OF THE COMPANY

	2006 RMB'000	2005 RMB'000 (restated)
Property, plant and equipment	**5,294**	6,378
Prepaid land lease payments	**5,780**	5,866
Investments in subsidiaries, net of accumulated impairment losses	**3,558**	3,558
Due from subsidiaries	**53,372**	160,865
Due to a subsidiary	**(73,470)**	(1,263)
Investment in an associate	**252,591**	314,191
Due from an associate	**61,600**	–
Non-pledged time deposits with original maturity of more than three months when acquired	**49,263**	102,682
Cash and cash equivalents	**39,516**	39,501
Other current assets	**44,032**	82,842
Bank loans	**–**	(234,036)
Other current liabilities	**(18,340)**	(23,216)
NET ASSETS	**423,196**	457,368
Share capital	**118,480**	118,480
Reserves (note 32(a))	**304,716**	338,888
TOTAL EQUITY	**423,196**	457,368

32. RESERVES

(a) Reserves of the Company

	Capital reserve RMB'000 ((b)(i))	**Reserve funds** RMB'000 ((b)(ii))	**Accumulated losses** RMB'000 (restated)	**Total** RMB'000 (restated)
At 1 January 2005	377,720	52,579	(24,375)	405,924
Loss for the year	–	–	(67,036)	(67,036)
At 31 December 2005 and 1 January 2006	377,720	52,579	(91,411)	338,888
Loss for the year	–	–	(34,172)	(34,172)
At 31 December 2006	**377,720**	**52,579**	**(125,583)**	**304,716**

32. RESERVES (Continued)

(b) Nature and purpose of reserves

(i) Capital reserve

Capital reserve of the Company includes:

- share premium totalled approximately RMB374,639,000 arising from issue of new shares;

- the waiver of an amount of approximately RMB1,654,000 recorded as part of issuance expenses for the listing of the Company's H shares on the GEM of the Stock Exchange in July 2000 (the "Listing") payable to an unrelated party who had provided services to the Company during the Listing pursuant to prevailing accounting principles and regulations in the PRC; and

- the net gain of approximately RMB1,427,000 resulting from debt restructuring of Hebei Beida Jade Bird Universal Fire Alarm Device Company Limited ("Hebei Fire Alarm"), a subsidiary of the Company, transferred in accordance with prevailing accounting principles and regulations in the PRC.

(ii) Reserve funds

Reserve funds comprise statutory surplus reserve and statutory public welfare fund. In accordance with the laws and regulations in the PRC and articles of association of the Company and its subsidiaries incorporated in the PRC (collectively referred to the "PRC entities"), the PRC entities are required to appropriate 10% and 5% of their profit after tax, after offsetting any prior years' losses, to the statutory surplus reserve and statutory public welfare fund, respectively. When the balance of the statutory surplus reserve reaches 50% of the PRC entities' share capital, any further appropriation is optional. The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of share capital. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the PRC entities' employees, such as construction of dormitories, canteen and other staff welfare facilities, the title to which remains with the PRC entities. This fund is non-distributable other than in liquidation.

NOTES TO THE FINANCIAL STATEMENTS

32. RESERVES (Continued)

(c) Profit appropriations

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 reserve funds as stated in (b)(ii) above.

(iii) 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.

33. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up/ registered capital	Percentage of equity interests Direct	Percentage of equity interests Indirect	Principal activities
Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited	Cayman Islands/ Hong Kong	10,000 ordinary shares of US$1 each	100%	–	Technology research, development and sale of integrated circuits, computer products and related products
Hebei Fire Alarm	Hebei Province, the PRC	Registered capital of RMB10,000,000	75%	–	Technology research, development, manufacture and sale of fire alarm system products
Wuhan Beida Jade Bird Netsoft Company Limited	Wuhan, the PRC	Registered capital of 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	100 ordinary shares of US$1 each	–	100%	Investment holding

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

During the year, the Group disposed of its entire equity interests in Beida Jade Bird Overseas Education Limited ("Beida Overseas Education"), a wholly owned subsidiary of the Group to Hong Kong Jade Bird Science and Technology Limited ("HK Jade Bird Sci-Tech") for a consideration of approximately RMB413,000.

During the year ended 31 December 2005, the Group disposed of its entire equity interests in Beijing Jade Bird Haodi Electric System Company Limited, a 51% owned subsidiary of the Group, for a consideration of RMB500,000.

	2006 **RMB'000**	2005 RMB'000
Net assets/(liabilities) at the date of disposal were as follows:		
Prepayments, deposits and other receivables	**1,511**	147
Inventories	**–**	652
Cash and bank balances	**71**	2
Trade payables	**–**	(310)
Accrued liabilities and other payables	**(725)**	(2,038)
Net assets/(liabilities)	**857**	(1,547)
(Loss)/gain on disposal of a subsidiary	**(444)**	2,047
	413	500
Satisfied by:		
Offsetting the amount due to HK Jade Bird Sci-Tech	**413**	–
Cash consideration receivable	**–**	500
	413	500

Net cash outflow arising on disposal:

	2006 **RMB'000**	2005 RMB'000
Cash and cash equivalents disposed of	**(71)**	(2)

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

(b) Major non-cash transaction

During the year, the Group disposed of its entire equity interests in Beida Overseas Education to HK Jade Bird Sci-Tech for a consideration of approximately RMB413,000 by offsetting the same amount due to HK jade Bird Sci-Tech by the Group.

35. LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006	2005
	RMB'000	RMB'000
Within one year	**872**	1,015
In the second to fifth years inclusive	**286**	511
	1,158	1,526

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for terms ranging from one to two years and rentals are fixed over the lease terms and do not include contingent rentals.

36. CONTINGENT LIABILITIES

Chengjian Donghua, an 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 Virgin 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 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 GEM Listing Rules) of the Company.

36. CONTINGENT LIABILITIES (Continued)

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. 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 did 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 ordered the reinstatement of the freeze order dated 17 November 2005. On 21 August 2006, the People's High Court of Beijing, in consideration of a further guarantee provided by 北大資產經營有限公司 (in addition to the guarantee provided by 中投信用擔保有限公司), is of the view that the application by Chengjian Donghua for the discharge of the freeze order now meets the legal requirements. Therefore, the People's High Court of Beijing re-discharge the freeze order. 北大資產經營有限公司 is an asset management company approved by the State Council of the PRC for its establishment. 北大資產經營有限公司 is wholly-owned by the Peking University which is the ultimate controlling shareholder of the three existing promoters of the Company. 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.

In view of the present progress and 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.

The service fee charged by 中投信用擔保有限公司 in connection with the guarantee provided for discharge of the freeze order issued on 24 February 2006 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 as the discharge of the freeze order issued reinstated on 15 May 2006 and the on 21 August 2006, the freeze order re-discharged upon a further guarantee provided by 北大資產經營有限公司 (in addition to the guarantee provided by 中投信用擔保有限公司). Pursuant to the guarantee agreement entered into between Chengjian Donghua and 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. 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 substantial shareholder with significant influence
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
HK Jade Bird Sci-Tech	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

NOTES TO THE FINANCIAL STATEMENTS

37. 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
Beida Jade Bird Security System Engineering Technology Company Limited ("Jade Bird Security System")	A subsidiary of Beida Jade Bird
Western Beida Jade Bird Investment Company Limited ("Western Jade Bird")	A subsidiary of Beida Jade Bird
Beijing Western Journey Trading Company Limited Babylon Restaurant ("Beijing 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 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

37. 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**
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 Company Limited ("Jade Bird Sihua")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Education Company Limited ("Beida Education")	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird Fire Equipment Marketing Company Limited ("Shanghai Jade Bird Fire")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Tianqiao Apparatus Equipment Company Limited ("Beijing Tianqiao Apparatus")	A subsidiary of Beida Jade Bird
Guangdong Jade Bird Information System Company Limited ("Guangzhou Jade Bird IS")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Security Technology Company Limited ("Beijing Jade Bird Security")	A subsidiary of Beida Jade Bird
Hangzhou Jade Bird Electricity Technology Company Limited ("Hangzhou Jade Bird Electricity")	A subsidiary of Beida Jade Bird

37. RELATED PARTY TRANSACTIONS (Continued)

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

Some of the above related parties are controlled by Beida Jade Bird indirectly through Beijing Tianqiao. On 20 December 2006, the shares held by Beida Jade Bird in Beijing Tianqiao were invited for bids by Liaolin Province Higher People's Court of the PRC and an unrelated party won the bid. Since the share transfer was still in progress, in the opinion of the directors of the Company, these parties are considered to be related at 31 December 2006.

(b) Peking University is the substantial shareholder with significant influence 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:

	2006	2005
	RMB'000	RMB'000
Sale of embedded systems products and provision of total solution services to:		
Beijing Tianqiao	**885**	700
Beida Jade Bird	**–**	–
Jade Bird Security System	**431**	447
Beijing Jade Bird IS	**2,726**	52
Guangzhou BIS	**120**	247
Shanghai BIS	**–**	138
Shanghai BIS NJ Branch	**236**	128
Beijing BIS	**17**	173
Beijing SHW	**–**	345
Shanghai Jade Bird IS	**414**	97
Beijing Jade Bird CTD	**–**	145
Beijing Jade Bird AIT	**–**	118
Wuhan BIS	**–**	41
Shanghai Jade Bird Fire	**6,484**	4,789
Beijing Tianqiao Apparatus	**44**	–
Guangzhou Jade Bird IS	**176**	–
Beijing Jade Bird Security	**2**	–
Hangzhou Jade Bird Electricity	**1**	–
Jade Bird Sihua	**977**	–
	12,513	7,420

37. RELATED PARTY TRANSACTIONS (Continued)

(b) (Continued)

	2006	2005
	RMB'000	RMB'000
Purchase of inventories:		
Beijing Tianqiao	**176**	2,647
Guangzhou BIS	**–**	250
Beijing SHW	**109**	32
	285	2,929
Rental expense for an office building charged by Beida Jade Bird	**734**	905
Interest income on an amount due from Beida On-line	**–**	459
Disposal of a 100% equity interests in Beida Jade Bird Overseas Education Limited to HK Jade Bird Sci-Tech (note 34(a))	**413**	–
Purchase from Beida Jade Bird of a 44% equity interests in and a loan receivable from Chengjian Donghua (note 18)	**–**	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.

(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 2006 and 2005 as the Group did not have any sales of products using this GPS technology in these years.

37. RELATED PARTY TRANSACTIONS (Continued)

(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, the Group purchased certain computer products amounting to RMB51,812,000 (2005: RMB80,456,000) 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) At 31 December 2005, the Group's bank loan of US$29 million (equivalent to approximately RMB234,036,000) was guaranteed by a shareholder of the Company (note 26).

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

	2006 **RMB'000**	2005 RMB'000
Due from an associate:		
Chengjian Donghua	**61,600**	61,600
Trade receivables from related parties:		
Jade Bird Security System	**21**	37
Beijing Jade Bird IS	**25**	25
Beijing SHW	**–**	94
Guangzhou BIS	**29**	29
Jade Bird Sihua	**610**	–
	685	185
Prepayments, deposits and other receivables from related parties:		
Beda Jade Bird	**47**	–
Beijing BIS	**100**	–
	147	–

37. RELATED PARTY TRANSACTIONS (Continued)

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

	2006 RMB'000	2005 RMB'000
Due from a shareholder:		
Beida Jade Bird	**94**	494
Due from related parties:		
Beijing Tianqiao	**298**	298
Beijing Huaguang	**2**	2
Beijing Babylon	**8**	8
Jade Bird Sihua	**27**	27
Beijing BIS	**55**	24
	390	359
Trade payables to related parties:		
Beijing Tianqiao	**138**	138
Beijing Jade Bird IS	**72**	49
Beijing SHW	**–**	29
Western Jade Bird	**16**	16
	226	232
Advances from related parties:		
Beijing Tianqiao	**150**	150
Guangzhou BIS	**1,000**	45
Shanghai BIS	**5**	5
	1,155	200
Due to a shareholder:		
Beida Jade Bird	**612**	1,106

37. RELATED PARTY TRANSACTIONS (Continued)

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

	2006 **RMB'000**	2005 RMB'000
Due to related parties:		
Beijing Tianqiao	**705**	3,498
Beijing Jade Bird IS	**161**	1,913
Beida Education	**74**	29
Shanghai Jade Bird IS	**–**	254
Shenzhen Jade Bird	**355**	355
HK Jade Bird Sci-Tech	**–**	1,165
Beida Overseas Education	**1,010**	–
	2,305	7,214

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

	2006 **RMB'000**	2005 RMB'000
Short term employee benefits	**1,303**	3,010
Post-employment benefits	**48**	81
	1,351	3,091

Further details of directors' and supervisors' emoluments are included in note 10 to these financial statements.

38. COMPARATIVE FIGURES

The comparative figures were audited by another firm of certified public accountants in Hong Kong.

Certain comparative figures have been reclassified to conform to the current year's presentation or amended in according to recognition or disclosure requirements of the relevant HKFRSs.

The changes included the following:

(a) Prepaid land lease payments of RMB5,917,000 included in the cost of the buildings of the property, plant and equipment for the year ended 31 December 2005. According to HKAS 17 "Leases", the lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. The lease payment in accordance with HKAS 17 to be recognised as an expense for the years ended 31 December 2005 and 2006 were RMB51,000 and RMB86,000 respectively.

(b) Non-pledged time deposits with original maturity of more than three months when acquired and cash and cash equivalents were reclassified as RMB101,663,000 time deposits included in the cash and cash equivalents with original maturity of more than three months.

(c) For the year ended 31 December 2005, a subsidiary of the Group declared dividend and during the year ended 31 December 2006, the PRC auditors of this subsidiary noted that the profits available for distribution by this subsidiary was not adequate and no dividend to be distributed to the Group and the minority shareholders. The dividend payable to minority shareholders of a subsidiary included in the minority interests and other payable amounted to RMB2,397,000 were adjusted accordingly.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2007.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2006 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 Wednesday, 30 May 2007 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 2006;

2. To consider and approve Report of the Supervisory Committee for the year 2006;

3. To consider and approve the audited consolidated financial statements for the year 2006;

4. To consider and approve the dividend distribution proposal for the year 2006;

5. To consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year 2006;

6. To consider and approve the remuneration proposals for Directors and Supervisors of the Company for the year 2006;

7. To consider and approve the proposal for appointment of RSM Nelson Wheeler as auditors for the year 2007 and authorise the Directors to fix their remuneration;

8. To transact any other business.

II. As special resolution:

"**THAT**

(1) 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 shall not exceed:

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

(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 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 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 AGM 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

NOTICE OF ANNUAL GENERAL MEETING

(2) contingent on the Board of Directors resolving to issue shares pursuant to sub-paragraph (1) of this Resolution, the Board of Directors be authorised 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 (1) 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
23 March 2007

Notes:

(A) The register of holders of H Shares will be closed from 30 April 2007 (Monday) to 30 May 2007 (Wednesday) (both days inclusive) during which period no transfer of H shares will be registered. Any holder of the H Shares 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 27 April 2007 (Friday) and have completed the registration process, will be entitled to attend the AGM.

The address of Hong Kong Registrars Limited is as follows:
46th Floor, Hopewell Centre, 183 Queens Road East, Hong Kong (Fax no: 852-2865-0990)

(B) Holders of Domestic Shares or H Shares who intend to attend the AGM must complete the reply slips for attending the AGM and return them to Hong Kong Registrars Limited at the address set out above (for holders of H Shares) or to the place of business of the Company in Beijing (for Domestic Shares) not later than 20 days before the date of the AGM, i.e. no later than 4:00 p.m. on 9 May 2007 (Wednesday).

The place of business of the Company in Beijing is as follows:
3rd Floor, Beida Jade Bird Building, No. 207 Chengfu Road, Haidian District, Beijing 100871, the PRC (Fax no: 86-10-62758434)

(C) Each holder of H Shares who has the right to attend and vote at the AGM is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the AGM. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

(D) The instrument appointing a proxy must 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 authorising that attorney to sign, or other documents of authorisation, must be notarially certified.

(E) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Share registrar, Hong Kong Registrars Limited, the address of which is set out in Note (A) above, not less than 24 hours before the time for holding the AGM or any adjournment thereof in order for such documents to be valid.

(F) Each holder of Domestic Shares is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the AGM. Notes (C) to (D) also apply to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the place of business of the Company in Beijing, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the AGM or any adjournment thereof in order for such documents to be valid.

(G) If a proxy attends the AGM on behalf of a shareholder, he should produce his identity card and the instrument signed by the proxy or his legal representative, and specifying the date of its issuance. If a legal person shareholder appoints its corporate representative to attend the AGM, such representative should produce his/her identity card and the notarised copy of the resolution passed by the board of directors or other authorities or other notarised copy of the licence issued by such legal person shareholder.

(H) The AGM is expected to last for half a day. Shareholders attending the AGM are responsible for their own transportation and accommodation expenses.