Withub

Annual Report 2006

SHANGHAI JIAODA WITHUB INFORMATION INDUSTRIAL COMPANY LIMITED*

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

Stock Code: 8205

*for identification purpose only

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This report, for which the directors (the "Directors") of Shanghai Jiaoda Withub Information Industrial Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Profile

上海交大慧谷信息產業股份有限公司 (Shanghai Jiaoda Withub Information Industrial Company Limited*) is principally engaged in the development of business application solutions in the PRC. One of its founders is Shanghai Jiao Tong University, a renowned tertiary education institution in the PRC. The Group utilises the expertise and research capability of Shanghai Jiao Tong University in the information technology sector to develop its core technologies in business application solutions.

The Group's operations encompass the development and provision of business solutions on project basis, the development and sale of application system as off-the-shelf products and sale of distributed products, such as notebook computers and computer related products.

Leveraging on its well-qualified and experienced team of research and development staff as well as its relationship with and on-going technological support from Shanghai Jiao Tong University, the Group is well positioned to become a leading business application solutions developer in the PRC.

Highlights

For the year ended 31 December 2006,

– turnover of the Group amounted to approximately RMB122,450,000 (2005: approximately RMB139,496,000) which represented a slight decrease of approximately 12.22%;

– loss attributable to equity holders of the Company was approximately RMB16,288,000 (2005: approximately RMB9,691,000); and

– the Directors do not recommend the payment of a final dividend (2005: Nil).

* *For identification purposes only.*

Corporate Information

Executive Directors

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

Independent Non-executive Directors

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

Supervisors

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

Company Secretary and Qualified Accountant

Mr. Chong Cha Hwa *ACCA(UK)*

Audit Committee and Remuneration Committee

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

Compliance Officer

Mr. Lu Yaohui

Legal Address

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

Principal Place of Business in Hong Kong

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

Principal Place of Business in the PRC

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

Authorised Representatives

Mr. Cheng Min
Mr. Wang Yiming

Principal Bankers

China Construction Bank
– Shanghai Sub-branch No. 2
Shanghai Bank
– Xu Hui Sub-branch

Auditors

SHINEWING (HK) CPA Limited
20th Floor, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Legal Advisers

As to Hong Kong law
Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law
AllBright Law Offices
25th Floor, Jin Mao Tower
88 Century Boulevard
Shanghai
The PRC

Hong Kong Share Registrar and Transfer Office

Union Registrar Limited
Room 1803, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

Stock Code

8205

Company Website

www.withub.com.cn

Chairman's Statement

To All Shareholders,

On behalf of the board of directors (the "Board" or the "Directors") of Shanghai Jiaoda Withub Information Industrial Company Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the financial report of the Company for the year ended 31 December 2006.

The year of 2006 has been a year that filled with actions and challenges to the management. With the determination and great effort of the management, we manage to achieve some remarkable results in the cost management, with a cut down of the cost for almost 50% as compared to last financial year.

The cost saving strategy has improved the financial result of the main operation to only marginal loss this year and helps the Company to be more resourceful and flexible to maneuver in the coming year. This allows the Company to have more room to adopt new thinking and take the new action.

In 2006, the Group continued to invest in Union Genesis Limited ("UGL"). We intend to increase the vigilant and alertness of the management on this area in order to assist the Company to check its loss and assist it to turn around as soon as possible. The Group will review the business strategy of the Company and its management to take a more involving role in the management in financial area or at the board level. With our involvement, we are able to contribute more to the management and also implement more internal control to prevent any weakness in the management. We would also review with the senior management on its strategy on the products and markets. We hope this will stem the loss and uphold the management spirit of the Company.

The Group was placed in a very positive and advantage situation for last year. The China's GDP is estimated to grow at more than 9% this year. The PRC Government has lately passed a very conducive law on the ownership of properties which has been subjected to debate for the last 13 years. This passage of law allows clearer procedure and outline on the regulations on the property ownership and this will further encourage investment and commercial activities which in turn boost the business of IT which has become an integrated part of many business activities.

As China continues to reform and open to the foreign market and integrate with the international business activities, the PRC Government will continue to attract in more and more foreign investors. The foreign reserve for the country has been reaching record high month by month. The strong economy at the macro level will transcend to the micro level and increase the wealth and income of ordinary families in China. This will boost their spending power and also their ability to consume higher value items. This is beneficial to the Group as the society is moving towards an information oriented community and also encouraging people to purchase more electronic gadgets such as high resolution LCD TV or plasma TV, computer related products and the Group will tap into the opportunity offered in this area.

Chairman's Statement

As for the corporate client, we continue to strive to position ourselves as one of the established and leading software application house complemented with the hardware. We intend not only able to keep our existing clients but also to use our existing base as good reference points to expand into new customer base. We will continue to pay full attention to provide quality services which include paying detailed attention to the need of the customer, customer support and offer value-added service for them such as continued software support, maintenance and also problem solving.

In addition, the good economy outlook has also motivated many corporates to invest in the IT area in order to be more efficient and also advanced in terms of services. The demand for the IT products like projectors, public information display boards, big screen projectors and also security products have also increased to reflect the desire of the Shanghai City to transform itself to rival its counter parts like Seoul or Hong Kong for the advancement of the electronic media and IT sectors.

Looking ahead is the year full of promise and challenge. The Renminbi will continue to strengthen and this allows us to import products at lower cost, though on the other hand, give rise to the pressure on the operating cost for the Group. The Group intends to improve the productivity and efficiency of the management team in order to offset the rising operation cost and stay competitive.

For the coming year of 2007 which is just one year ahead of the 2008 Beijing Olympic Game, we believe that there will be more positive news to look forward both for the Company, Shanghai City and our country. We will continue to focus on our core area in the coming year, which is the business solution application provider and the hardware distribution which include obtaining more unique and high quality branded products so as we can excel in the niche market.

I faithfully believe that the Company and the management are keen on fast adaptation to the changing environment and to capture the business opportunity that come along in the information technology area. We have a very loyal and united team and we believe we could bring the operation of the Company back to profitability in the coming 2007.

Last but not least, I would like to take this opportunity to express my sincere thanks to our valuable shareholders and customers, and to our committed staff for their continuing support. Looking forward, we will try our best to reward the shareholders with most fruitful return.

By Order of the Board

Yuan Tingliang
Chairman

Shanghai, 22 March 2007

Management Discussion and Analysis

Results

For the year ended 31 December 2006, the Group recorded a turnover of approximately RMB122,450,000 (2005: approximately RMB139,496,000), representing a slight decrease of nearly 12.22% as compared to the previous year's turnover. The Group recorded an increase to the loss attributable to the equity holders of the Company of approximately RMB16,288,000 (2005: approximately RMB9,691,000), representing an increase of nearly 68% in the loss for the current financial year. The loss was mainly due to the loss of the associate companies which amounted to RMB11,520,000. However the main operation of the Company continued to improve by narrowing the loss from previous year of RMB7,115,000 to RMB5,058,000.

Business Review

The main operation of the Company remained focus and intact although the loss has increased nearly 68% more due to the great loss attributable from the associate companies which involved in the business of design, production and sales of consumer electronic hardware and software. The loss attributable from the associate companies have increased almost 3.5 times from RMB3,291,000 to RMB11,520,000.

Union Genesis Limited, an associate of the Group, had recorded a loss from the operation of its subsidiaries from Shanghai and Hong Kong. C-NOVA Microsystem (Shanghai) Limited, an subsidiary operated in Shanghai, had insufficient business activities and resulted in non-absorbable operating cost and aggregated a loss of RMB9,700,000.

Whilst for another subsidiary, C-NOVA Microsystem Limited operated in Hong Kong, the company had aggregated a negative gross profit margin and high operation cost and resulted in the loss of RMB10,500,000. The negative gross profit margin was due to the cut down of the selling price in order to introduce the product to the market. The inventory of the company had increased significantly to 3 times more than the previous year and recorded to RMB45,000,000 and stock turnover is recorded at 1 year.

The management cost of Union Genesis Limited was amounted to RMB2,300,000 though there was no business activities for the company during the financial year.

As for the main business of the Group, it remained concentrate on the regular traditional business in the area of business solution development, distribution of computer accessories, design and installation of intelligent household system and also focused on research and development of high technology products and products related to real estate management such as securities control and intelligent building system.

The overall sales in the area had decreased 12% to RMB122,450,000 as compared to previous financial year. However, the gross margin had slightly increased to 11.8% as compared to last year figure of 8.2% due to the slight improvement in the software product margin.

The operating cost had been managed properly and trimmed down heavily from approximately RMB23,000,000 to RMB14,000,000. The management was able to execute the cost cutting plan successfully in order to stay competitive and dynamic. This allowed the loss from the main operation to cut down nearly 70% to RMB2,300,000. The cost cutting exercise had been achieved overall in the area of administration, research and development and also distribution cost.

Business Application Solutions Segment

The two main areas in this segment were business solutions development, which made up nearly 88% of the total sales, and application software. As for the business solution, the sales volume had dropped nearly 45% to RMB25,000,000.

However, the sales volume of application software had increased to RMB3,300,000 from last year as a start up operation. Although the volume of this segment was only contributing 23% to the total sales of the Company, the profit margin of this area stayed higher than the others and helped to absorb most of the expenses that incurred in this area.

The Company also committed most of the resources into this area. The asset turnover in this area remained low at 1.1 times and this was due to the nature of the software development business which needed long business cycle.

Sales of Goods Segment

The sales of goods segment had contributed to almost 73% of the total turnover of the Group. However, this was a very competitive and low profit margin business and the Company relied on high volume of the business. The turnover of the assets for this segment was reported at nearly 9 times as the previous year. Nevertheless, the segment of sales business was able to complement the software business.

The resources required to invest in this area was not too big and this allowed the Company flexibility to adjust to the market change and requirement.

Business Outlook

The economy of China remains strong and moving ahead seemingly. The forecast GDP for 2007 is set to be as high as 9%. The support of the foreign investment in China is still very positive and the influx of the foreign investment has made the foreign reserve for the country the highest in the world. The demand for RMB is great and the currency is expected to appreciate again this year. The anticipated 2008 Beijing Olympic Game is coming soon which will spur the economy boom further. In addition, the recent passing of the important law which outlines the right of property will greatly spur the country to further market reform and integration with the free market.

All these positive developments will bring many benefits to many cities in China especially Shanghai. The demand for consumer goods and the appetite to invest further from corporate in order to meet the business demand will keep going. The benefit will be felt through all the sectors including service, manufacturing and information technology sectors, though this will give pressure to the rising operation cost like employee emolument and benefits.

Therefore, the Group will continue to enjoy from this advantageous operation environment. The Company believes that the outlook for the information technology business will continue to be dynamic and vibrant.

Management Discussion and Analysis

Business Application Solutions

The Group has consolidated in this segment by focusing on the regular products and on the existing customers from the government organizations and some private sectors. The range of software solution provided range from the basic of providing the standard business solution to tailored made solution, from website design to software maintenance and support and from software trouble shooting to services center. The Company will employ a new strategy to reach out more to the new customers in private sectors as well as the government sectors. The Company will intensify the promotion and the marketing effort in this area in order to keep pace with the strong growth in this area. The Company will put the marketing effort as the top priority in positioning itself as an established and strong software producer in the domestic market.

Sales of Goods Segment

The sales of goods segment remains to be strong and the Company has added more items to it. The information technology hardware has fitted in very well with the software segment. For the coming year, the Company will focus on the product like the Sharp projector from Japan, the very special items in niche market such as giant screen combined projector, high ended public information electronic board, high resolution giant plasma and LCD TV. The Company will make good use of the situation to introduce these products to the government segments or private segments. The Company will also increase the man power in this area to expand further into this area to take advantage of the strong demand as the city of Shanghai has converted itself to the information based city.

The Company also expands the distribution business by setting up some agencies for security products in the intelligent building, like Si pass from Europe. The other products include Bewator for the CCTV accessories product such as CCTV camera cover and the hosting arm.

The Investment in UGL

The management will continue to monitor the business. As there will be subsequent changes in the management of UGL, the Company will employ a more participating strategy by involving in the top management of UGL in the area of finance or in the board of director level. The management will also ensure that the all the business in this company will be run properly and professionally according to the proper procedures and regulations of the Company without giving any negative impact to the holding Company.

New Business Opportunity

As the Company is able to consolidate further by cutting down the operation cost without much affecting the sales of the Group, we believe the main operation of the Company will able to turn around this year. With this turn around, the Company will be able to expand the resources to the new areas which build on the existing market and product strength in the IT related area. The Company will also look into the area of training service and involve itself in the new cutting edge technology product and services.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, shareholders' funds of the Group amounted to approximately RMB94,776,000 (2005: RMB111,369,000). Current assets amounted to approximately RMB102,299,000 (2005: RMB110,648,000), of which approximately RMB43,811,000 (2005: RMB43,311,000) were cash and bank balances. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB40,922,000 (2005: RMB48,712,000), which mainly comprised of other creditors and accrued expenses. The Group did not have any long-term debts.

Working Capital Ratio, Gearing Ratio

As at 31 December 2006, the Group had a net cash position and its working capital ratio (current assets to current liabilities) was 2.50 (2005: 2.27); and gearing ratio (long-term debt to shareholders' funds) was zero (2005: zero).

Capital Commitments and Significant Investments

The Group had no capital commitments and significant investments for the year ended 31 December 2006.

Material Acquisitions or Disposals

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2006.

Segmental Information

All of the Group's activities are conducted in the PRC and are divided into two business segments – namely business application solutions and sales of goods. Accordingly, analysis by business segments is provided in note 5 to the financial statements.

Employee Information

As at 31 December 2006, the Group had 92 full time employees (2005: 131), comprising 20 in management, finance and administration (2005: 38), 20 in research and development (2005: 52), 27 in application development and engineering (2005: 30), nil in production (2005: nil), and 25 in sales and marketing (2005: 11). Also, the Group had 6 school staff (2005: 18).

The Group has not experienced any disruption of its normal business operations due to labour disputes or significant turnover of staff. The Directors consider that the Company has maintained a very good relationship with its staff.

Remuneration of employees including Directors' emoluments and all staff related costs for the year ended 31 December 2006 was RMB7,701,000 (2005: RMB10,562,000).

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

Charges on Group Assets

As at 31 December 2006, the Group had not pledged any assets to its bankers to secure banking facilities granted to the Group (2005: Nil).

Details of Future Plans for Material Investments or Capital Assets

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

Foreign Exchange Exposure

During the year ended 31 December 2006, the Group's monetary assets and transactions are denominated in RMB, HKD and USD. Though the exchange rate between RMB, HKD and USD is not pegged, there is little fluctuation of exchange rate between RMB, HKD and USD. Certain trade of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Contingent Liabilities

As at 31 December 2006, the Group did not have any significant contingent liabilities.

Biographical Details of Directors, Supervisors and Senior Management

DIRECTORS

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

Executive Directors

Mr. Yuan Tingliang (袁廷亮), aged 60, holds a Bachelor degree and is a Senior Engineer. Mr. Yuan joined the Company in May 1998 when it was incorporated and is the Chairman of the Company and responsible for the direction and positioning of the overall business operations. Since 1982, Mr. Yuan has acted in various positions at Shanghai Jiao Tong University, including the 精密儀器系副系主任 (Assistant Supervisor of the Department of Precision Instrument) and the 電子信息學院副院長 (Assistant Dean of the College of Electronic Information). Mr. Yuan has also been actively involved in the research and development in the technology field. Mr. Yuan is a board representative of Shanghai Jiaoda Industrial Investment Management (Group) Limited which is a substantial shareholder of the Company.

Mr. Cheng Min (程敏), aged 56, holds a Bachelor degree and is a Senior Economist. Mr. Cheng joined the Company since its incorporation in May 1998 and is the Vice Chairman and responsible for the overall business planning of the Group. Since 1984, Mr. Cheng has acted as the 上海徐匯集體事業管理局副局長 (Deputy Director of Shanghai Xuhui Collective Business Management Office), 黨委書記(General Manager and Party Secretary) of 上海徐匯區工業總公司 (Shanghai Xuhui District Industrial Company) and Chairman and Party Secretary of Shanghai Xin Xuhui (Group) Limited. Mr. Cheng is also the Chairman of 上海香海化妝品銷售有限公司 (Shanghai Xiang Hai Cosmetics Limited) and 上海匯星電腦網絡工程有限公司 (Shanghai Hui Xing Computer Network Engineering Limited), Vice Chairman of 上海復旦綠源泉生物醫藥科技有限公司 (Shanghai Futan Green Spring Bio-Pharmaceutical Technology Limited) and a director of 上海草津電機有限公司 (Shanghai Cao Jin Electrics Limited) and 上海交大科技園有限公司 (Shanghai Jiaoda Science and Technology Park Limited) which is a substantial shareholder of the Company. Mr. Cheng is a board representative for Shanghai Xin Xuhui (Group) Limited which is a substantial shareholder of the Company.

Mr. Mo Zhenxi (莫振喜), aged 52, joined the Company since April 1998 and is the Vice Chairman and responsible for the supervision of the Company's operation and financial activities. Since 1979, he had held several positions including deputy-secretary in 上海汽車配件廠配覺支部 (Shanghai Motor Parts Distribution Department), 紀檢員 (a prosecutor) in 上海市紀委正科 (Shanghai Disciplinary Correction Section) and a department head in Shanghai Technology Investment Company and General Manager and Chief Officer of Shanghai Technology Investment Company.

DIRECTORS (Continued)

Executive Directors (Continued)

Mr. Wang Yiming (王亦鳴), aged 39, holds a bachelor degree in electronic and a master degree in business administration from Shanghai Jiao Tong University. He has taught in Shanghai Jiao Tong University since 1989. Prior to the appointment as executive director of the Company in September 2004, Mr. Wang was the chief executive officer and an initial management shareholder of the Company and involved in the establishment of the Company in 1998 and has worked for the Company since then. He possesses knowledge and experience in the development and management of network security, electronic communications and modernisation of information infrastructure of government agencies. Mr. Wang is the vice chairman of Shanghai Jiaoda Withub Software Company Limited and Shanghai Withub Duogao Information Construction Company Limited, and executive director of Shanghai Jiaoda Withub Technology Street Company Limited. Mr. Wang is responsible for the planning and implementation of overall business operations as well as determining the positioning and direction for technological research and development.

Mr. Li Wei (李瑋), aged 30, graduated from Department of Management Science and Engineering of the School of Management of Shanghai Jiao Tong University in 2003 with a Doctoral degree in Management. During his study, Mr. Li conducted research mainly in the field of finance, insurance and social security, and involved in various research projects on National Natural Science Foundation of China and corporate trust. He has also published over ten thesis in industry publications. He worked at the State-owned Assets Administration Office of Shanghai Xuhui District and was responsible for strategic development and planning, and formulating researches and proposals for regional state-owned assets and enterprises reform. He has acted as the deputy manager of the investment division of 上海徐匯國有資產投資經營有限公司 since July 2004, in which he was responsible for corporate investment, hi-tech projects investment and capital management.

Mr. Lu Yaohui (陸耀輝), aged 36, graduated from 制造工藝與設備專業 of Department of Mechanical Engineering of Shanghai Jiao Tong University and obtained a Bachelor degree in Industrial Engineering in 1992. Mr. Lu also graduated from Department of Engineering Management (majored in enterprise management) of School of Management of Shanghai Jiao Tong University in 2003 with a Master degree in Management. He was a tutor and lecturer of 機制造基礎教研室 of Department of Mechanical Engineering and Deputy Chief Secretary and 團委書記 (Secretary) for 學生工作指導委員會 (Steering Committee of Student Affairs) of Shanghai Jiao Tong University. He is the Executive Vice President and Deputy Secretary of 上海交大產業集團 (Shanghai Jiaoda Industrial Group), Managing Director of 上海交大海科(集團)有限公司 and a director of National Technology Transfer Centre and Shanghai Jiaoda Science and Technology Park Limited which is a substantial shareholder of the Company.

Mr. Qian Zhenying (錢振英), aged 63, graduated from 上海工業院 in 1968. He obtained a Master degree and a Doctoral degree in Automatic Control from Shanghai Jiao Tong University in 1981 and 1985 respectively. He also acted as tutor during his study for the doctoral degree. Mr. Qian worked at the oxygen generating plant of Wusong Chemical Factory and 貴州五嶺化工廠 and has over 10 years of experience in related technological research. He is the officer of Shanghai Withub High Technology Industrial Centre and the general manager of Shanghai Jiaoda Science and Technology Park Limited which is a substantial shareholder of the Company.

DIRECTORS (Continued)

Independent Non-executive Directors

Professor Shao Shihuang (邵世煌), aged 68, is a professor as well as mentor for doctorate students (博士生導師) in Donghua University (東華大學). Professor Shao graduated from Nanjing Polytechnic Institute (presently known as Southeast University) (南京工學院現稱東南大學) in 1960 specialised in industrial electrical automation (工業企電氣自動化專業) and was a visiting scholar in the University of Maryland in the United States. Professor Shao is the 副理事長 (vice chairman) of 中國紡織工程學會 (Textile Engineer Society of the PRC) and 上海市微電腦應用學會 (Society of Micro-Computer Application of Shanghai). He has been awarded the 國家科技進步二等獎 (National Technology Advancement Second Tier Award), two 上海市教學改革二等獎 (Shanghai Municipal Education Reform Second Tier Award), 上海市科技進步三等獎 (Shanghai Municipal Technology Advancement Third Tier Award) and was accredited as 全國高等學校科技先進工作者 (National Tertiary Schools' Pioneer). Professor Shao was appointed as an independent non-executive Director by the Company in September 2001.

Professor Gu Junzhong (顧君忠), aged 57, holds a Master degree and is a supervisor of 多媒體技術研究室 (the Multimedia Information Technology Research Centre) of 華東師範大學 (East China Normal University) 計算機科學技術系 (Department of Computer Science and Technology) and 第三屆上海市信息化專家委員 (Member of the third IT Advisor Committee of Shanghai Municipal Government). Professor Gu started teaching at 華東師範大學 (East China Normal University) since 1982 and became a professor since 1991 and a mentor for doctorate students since 1994. Professor Gu also acted several times as the guest researcher at the National Information Technology Research Centre (GMD) in Germany during the period from 1987 to 1997. He has published numerous thesis in publications and conferences both in the PRC and overseas, and has obtained various awards and recognitions in the PRC. Professor Gu was appointed as an independent non-executive Director by the Company in December 2001.

Mr. Hu Shao-ming, Herman (胡曉明), JP, BSc, FCIBSE, FHKIE, MBIM, MIEEE, CEng., aged 53, is the Chairman of Ryoden Development Limited. In addition to Mr. Hu's extensive business experience in Hong Kong and Mainland China, he also serves a number of prominent duties, including standing committee member of Chinese People's Political Consultative Conference, Shanghai; member of Hong Kong Sports Commission, Chairman of Major Sports Events Committee and Director of Hong Kong Sports Institute. Mr. Hu is also a concurrent professor of Xian Jiaotong University and East China University of Science & Technology. Mr. Hu was appointed as an independent non-executive Director by the Company in December 2001.

Professor Yang Junchang (楊君昌), aged 60, is a registered accountant in the PRC (中國註冊會計師) and Professor of finance faculty of Shanghai Finance and Economics University. Professor Yang is also an independent director of Shanghai New World Co., Ltd., a listed company in Shanghai. Professor Yang was appointed as an independent non-executive Director by the Company in September 2004.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Mr. Zhang Gongda (張功達), aged 48, is the chairman of the Company's supervisory committee and responsible for the supervision of the overall business and financial activities of the Company. Mr. Zhang holds a Bachelor degree and is a senior economist and an accountant. Mr. Zhang has over 29 years of experience in financial budgeting and investment management. He was the 科長 (Section Chief) of 崇明縣財政局綜合預算科 (Consolidated Budgetary Section of Xuemin County Finance Office), the manager of 崇明營業部 (Operation Division (Chong Ming)) of Shanghai Finance Securities Co., 科長 (Section Chief) of 徐匯區財政局綜合計劃預算科 (Consolidated Planning and Budgetary of Xuhui District Finance Office) and 徐匯區財政局局長助理 (Assistant to Secretary of Xuhui District Finance Office). Mr. Zhang is 常務副總經理 (Executive Deputy General Manager) of 徐匯區國有資產投資經營有限公司 and deputy officer of State-owned Assets Administration Office of Xuhui District. Mr. Zhang was appointed by the Company in July 2005.

Mr. Yao Benqiang (姚本強), aged 54, is a supervisor of the Company and responsible for the supervision of the Company's financial activities. Mr. Yao has over 22 years of experience in financial accounting and auditing. Mr. Yao joined Shanghai Xin Xuhui in 1995 and became the financial controller in 1998. He was awarded 上海市財務總監業務培訓班證書 (the Certificate of Continuing Education of Shanghai Chief Financial Officer) and is the 徐匯區內部審計協會副理事長 (Vice chief counsel of Xuhui District Internal Audit Committee), 區會計學會理事 (council member of District Accountancy Committee) and 市成本研究會會員 (member of the City Costing Research Committee). Mr. Yao was appointed by the Company in December 2001.

Mr. Yu Jiming (俞紀明), aged 48, is a supervisor of the Company and responsible for the supervision of the Company's operation and financial activities. Mr. Yu graduated with Bachelor degree in University of Science and Technology Beijing and is a Senior Accountant and a registered accountant. Mr. Yu held various positions in 上海浦東鋼鐵公司 including 財務處成本科管理員、組長及科長 (Administrator, Supervisor and Section Chief of Cost Section of Finance Department), 財務處副處長 (Deputy Head of Finance Department) and 對外經濟貿易處處長 (Head of Foreign Economic and Trade Department) and 副總會計師 (Deputy Chief Accountant). He was also the General Manager of 三綱國際貿易公司. Since 1999, Mr. Yu has acted as the Manager of Finance Division of Shanghai Science & Technology Investment Corporation, a director and Chief Finance Officer of 上海眾恒信息產業有限公司, 監事長 (Head of Supervisors) of 上海燃料動力汽車有限公司 and a supervisor of 上海格爾軟件股份有限公司, Shanghai ShenTeng Information Technology Co., Ltd. and 上海科技同濟信息技術有限公司 (Shanghai Technology Tong Ji Information Company). Mr. Yu was appointed by the Company in July 2005.

Mr. Wang Liming (王禮明), aged 58, is a supervisor of the Company and responsible for the supervision of the Company's operation and financial activities. Mr. Wang graduated from Shanghai Television University with a Bachelor degree in Accountancy in 1986 and is an accountant. Mr. Wang acted as the 副科長 (Deputy Section Chief), 科長 (Section Chief) and 處長 (Head) of 財務處 (Finance Office) of Shanghai Jiao Tong University, Deputy General Manager of Simplex Computer Limited and 上海申通國際有限公司 and Deputy General Manager and General Manager of 上海交大聯合科技有限公司. He is also the Deputy Chief Economist of 上海交大產業集團 (Shanghai Jiaoda Industrial Group). Mr. Wang was appointed by the Company in July 2005.

SUPERVISORS (Continued)

Ms. Qin Yan (秦燕), aged 32, is the representative of the employees and is a supervisor of the Company. Ms. Qin is the manager of the integration department of the Company responsible for network integration design and wiring design. She graduated with Bachelor degree in 上海華東理工大學 (East China University of Science & Technology) specialized in complex machinery and subsequently obtained a master degree specialised in measurement techniques and instruments. Ms. Qin was appointed by the Company in September 2000.

SENIOR MANAGEMENT

Ms. Cao Zhen (曹蓁), aged 37, graduated from Shanghai Jiao Tong University. Ms. Cao is the vice president of the Company and the general manager of the integration business, in charge of the system integration business. Ms. Cao had worked in various positions including 上海交大科外系語言所 (Shanghai Jiaoda Ke Wai System Language Centre) as an engineer, 上海天明科技有限公司 as a manager, 上海瀚英實業發展有限公司 (Shanghai Han Ying Industrial Development Company Limited) as a manager, the general manager of Network Integration Centre (網絡集成中心) of the Company and being a chief project officer of the Company. Ms. Cao was appointed by the Company in May 2005.

Mr. Zhang Yuanyuan (張元元), aged 34, graduated from Shanghai Jiao Tong University with an MBA. Mr. Zhang is the vice president of the Company, in charge of the business management, human resources management, investment management of subsidiaries, qualification certification management, etc. Mr. Zhang had worked in various positions including Royton Technologies Co. Ltd. as a chief investment officer, 上海三九藥店有限責任公司 (Shanghai San Jiu Yao Dian Company Limited) as a managing director, 江蘇三九醫藥零售有限公司 (Jiangsu San Jiu Yi Yao Retail Company Limited) as a president, 杭州三九醫藥零售有限公司 (Hangzhou San Jiu Yi Yao Retail Company Limited) as a director, 上海三九醫藥有限公司 as a director, 上海價美醫藥零售連鎖有限公司 (Shanghai Jia Mei Yi Yao Retail Chain Company Limited) as a director. Mr. Zhang Yuanyuan was appointed by the Company in May 2005.

Mr. Chong Cha Hwa (張家華), aged 41, is the company secretary and the qualified accountant of the Company. Mr. Chong is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and a member of the Malaysian Institute of Certified Public Accountants, Malaysia. He has obtained a bachelor degree major in finance and minor in computer from the University of Science, Malaysia. Prior to joining the Company, Mr. Chong has gained more than 15 years of experience in the accounting and finance area servicing private and public listed companies in Hong Kong and the South Asia region. He was appointed by the Group in March 2005.

Report of the Directors

The Board of Directors is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2006.

Principal Activities

The Group is principally engaged in the development and provision of business application solutions which include business solutions, application software, network and data security products and is also engaged in the sales and distribution of computers and electrical products.

Major Customers and Suppliers

During the year under review, the Group's sales to the five largest customers accounted for 17.74% of the Group's turnover for the year, of which the largest customer accounted for 5.11% of the Group's turnover for the year.

Purchases from major suppliers accounted for the following percentages:

The largest supplier:	34.45%
Total percentage of the five largest suppliers:	65.86%

Save as disclosed above, as far as the Directors are aware, neither the Directors or their associates nor any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued capital) and management shareholders had any material interest in the five largest customers and five largest suppliers.

Results

The Group's results and financial position for the year ended 31 December 2006 are set out in the annual report on pages 31 to 69.

Dividends

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2006.

Financial Summary

A summary of the results and assets and liabilities of the Group for each of the five years ended 31 December 2006 is set out on page 70 of the annual report.

Plant and Equipment

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

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

Share Option Scheme

The Company conditionally adopted a Share Option Scheme by a resolution of all shareholders of the Company on 7 July 2002. The Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

The maximum number of H shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30 per cent. of the H shares in issue from time to time. The total number of H shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 13,200,000 H shares, being 10 per cent. of issued H shares. The total number of H shares issued and which may fall to be issued upon exercise of the options granted or to be granted under the Share Option Scheme and any other share option scheme of the Group to each grantee in any 12-month period up to the date of grant shall not exceed one per cent. of the H shares in issue for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such grantee and his associates abstaining from voting.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. No eligible participants who are PRC nationals and have taken up any options to subscribe for H shares shall be entitled to exercise any such options until the current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H shares or any laws or regulations with similar effects (the "H Shares Restrictions") have been abolished or removed. Options may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of offer for the grant of the option subject to the provisions for early termination thereof. The subscription price for H shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (aa) the closing price of the H shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (bb) the average closing price of the H shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (cc) the nominal value of the H shares.

During the period from 1 January 2006 to 31 December 2006, none of the Directors or supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2006, none of the Directors or the supervisors had any rights to acquire H shares in the Company.

Reserves

Details of movements in the reserves of the Group and of the Company during the year are set out in note 29 to the financial statements.

Retirement Benefits

Details of the retirement benefit scheme of the Group are set out in note 23 to the financial statements.

Report of the Directors

Directors and Supervisors

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive Directors
Mr. Yuan Tingliang（袁廷亮）
Mr. Cheng Min（程敏）
Mr. Mo Zhenxi（莫振喜）
Mr. Wang Yiming（王亦鳴）
Mr. Li Wei（李瑋）
Mr. Lu Yaohui（陸耀輝）
Mr. Qian Zhenying（錢振英）

Independent Non-executive Directors
Professor Shao Shihuang（邵世煌）
Professor Gu Junzhong（顧君忠）
Mr. Hu Shao-ming, Herman（胡曉明）
Professor Yang Junchang（楊君昌）

Supervisors (the "Supervisor", members of the supervisory committee of the Company)
Mr. Zhang Gongda（張功達）
Mr. Yao Benqiang（姚本強）
Mr. Yu Jiming（俞紀明）
Mr. Wang Liming（王禮明）
Ms. Qin Yan（秦燕）

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

Directors' and Supervisors' Service Contracts

The Company did not enter into any service contract with its executive Directors and independent non-executive Directors and each of the executive Directors, independent non-executive Directors and Supervisors, except Mr. Wang Yiming ("Mr. Wang") disclosed below.

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

Directors', Supervisors' and Senior Executives' Emoluments

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

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

As at 31 December 2006, the interests and short positions of the Directors, the Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance ("SFO") had applied to the Supervisors) or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Notes:

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

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

Save as disclosed above, as at 31 December 2006, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

Directors' Rights to Acquire Shares or Debentures

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

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

A. Substantial shareholders

As at 31 December 2006, the following shareholders (other than the Directors, the Supervisors (as if the requirements applicable to the Directors under the SFO had applied to the Supervisors) or chief executive of the Company) had an interest or a short position in the Shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO and were directly or indirectly interested in 10 per cent or more of the Shares:

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

Notes:

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

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

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

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

As at 31 December 2006, save for the persons/entities disclosed in sub-section A above, the following person/entity had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number and class of shares (Note)	Approximate percentage of interest
Chen Jianbo	Beneficial owner	24,300,000 domestic shares (L)	5.06%

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

Save as disclosed above, as at 31 December 2006, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Interests in Contracts

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Related Party Transactions

Details of related party transactions are set out in note 27 to the financial statements.

Competing Interests

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

Audit Committee

The Company established an audit committee on 7 July 2002 with written terms of reference. The audit committee comprises the three independent non-executive Directors, Prof. Gu Junzhong, Prof. Shao Shihuang and Prof. Yang Junchang.

The Company's financial statements for the year ended 31 December 2006 have been reviewed by the audit committee, who recommended such statements to the Board. The financial reporting process and internal control of the Company have also been reviewed by the audit committee, who were of the opinion that no further improvement was required for the time being. During the year, the audit committee has held four formal meetings.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2006.

Board Practices and Procedures

Throughout the year ended 31 December 2006, the Company was in compliance with the Board Practices Procedures as set out in Rule 5.34 of the GEM Listing Rules.

Auditors

Messrs BDO McCabe Lo Limited ("BDO") had been the auditors of the Group for three years until their resignation on 20 December 2006. The Group appointed SHINEWING (HK) CPA Limited as auditors of the Group to fill the casual vacancy created by the resignation of BDO and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditors of the Group.

On behalf of the Board

Yuan Tingliang
Chairman

Shanghai, the PRC, 22 March 2007

Report of the Supervisory Committee

To: All Shareholders

Shanghai Jiaoda Withub Information Industrial Company Limited has complied with the Company Law of the PRC during the year ended 31 December 2006, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principles of honesty and trustworthiness and worked cautiously and diligently.

During the year we carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the prospectus of the Company dated 25 July 2002 for the listing of the Company's H shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. We provided reasonable suggestions and advice on the operations and development plans to the Board and strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association of the Company or safeguarded the interests of shareholders.

After investigation, we consider that the financial statements of the Group and of the Company, audited by ShineWing (HK) CPA Limited, truly and sufficiently reflect the operating results of the Group and asset positions of the Group and of the Company. We also reviewed the Report of the Directors and profit distribution proposal. We consider that the aforesaid report and proposal meet the requirements of the relevant regulations and articles of the Company. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principles of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Group. None of the Directors, general manager and the officers have abused their authorities, caused damage to the interests of the Group and infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained in 2006 and are confident about the prospects and future development of the Group.

On behalf of the Supervisory Committee

Zhang Gongda
Chairman of the Supervisory Committee

Shanghai, the PRC, 22 March 2007

Report of Corporate Governance

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

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

BOARD OF DIRECTORS

The Board comprises eleven Directors, of whom seven are executive Directors and four are independent non-executive Directors. Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the pages 11 to 15 of the Annual Report. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

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

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

The board of directors of the Company comprises:

Executive Directors

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

Independent Non-executive Directors

Professor Shao Shihuang
Professor Gu Junzhong
Mr. Hu Shao-ming, Herman
Professor Yang Junchang

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

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

The Board held a board meeting for each quarter during the year ended 31 December 2006. Details of the attendance of the Board are as follows:

	Attendance
Executive Directors	
Mr. Yuan Tingliang	4/4
Mr. Cheng Min	4/4
Mr. Mo Zhenxi	4/4
Mr. Wang Yiming	4/4
Mr. Li Wei	4/4
Mr. Lu Yaohui	4/4
Mr. Qian Zhenying	4/4
Independent Non-executive Directors	
Professor Shao Shihuang	4/4
Professor Gu Junzhong	4/4
Mr. Hu Shao-ming, Herman	0/4
Professor Yang Junchang	2/4

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

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

REMUNERATION COMMITTEE

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

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

The remuneration committee consults the Chairman and Chief Executive Officer about its proposals related to the remuneration of the directors and senior management of the Company. The remuneration committee met twice during the year. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2006:

Name of Members	**Attendance**
Professor Gu Junzhong *(Chairman)*	2/2
Professor Yang Junchang	1/2
Professor Shao Shihuang	2/2

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

AUDITORS' REMUNERATION

An amount of approximately HK$330,000 was charged to the Group's consolidated income statement for the year ended 31 December 2006 for the auditing services provided by SHINEWING (Hong Kong) CPA Limited ("SHINEWING"), the existing auditors who was appointed on 20 December 2006. There is no significant non-audit service assignment provided by SHINEWING during the year.

During the year under review, no fees was payable to BDO McCabe Lo Limited who subsequently resigned on 20 December 2006, in respect of any audit or non-audit services.

AUDIT COMMITTEE

The audit committee was established on 7 July 2002 with written terms of reference. The financial reporting process and internal control of the Company have also been reviewed by the audit committee, who were of the opinion that no further improvement was required for the time being.

The audit committee comprises three independent non-executive Directors, Professor Gu Junzhong (the Chairman of the Committee), Professor Shao Shihuang and Professor Yang Junchang.

The audit committee held four formal meetings during the year ended 31 December 2006. Details of the attendance of the audit committee meetings are as follows:

Name of Members	**Attendance**
Professor Gu Junzhong (Chairman)	4/4
Professor Yang Junchang	2/4
Professor Shao Shihuang	4/4

The Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

Annual Report and Financial Statements

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

Accounting Period

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

Accounting Records

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

Going Concern

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

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

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

We have audited the financial statements of Shanghai Jiaoda Withub Information Industrial Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 31 to 69, which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED 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 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's loss 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practicing Certificate Number: P03427

Hong Kong
22 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	*4*	**122,450**	139,496
Cost of sales		**(108,053)**	(127,976)
Gross profit		**14,397**	11,520
Other revenue	*6*	**1,603**	4,731
Distribution expenses		**(2,118)**	(3,583)
Administrative expenses		**(18,940)**	(19,783)
Share of profits less losses of associates		**(11,520)**	(3,291)
Loss before tax	*7*	**(16,578)**	(10,406)
Income tax credit	*9*	**290**	–
Loss for the year		**(16,288)**	(10,406)
Attributable to:			
– Equity holders of the Company		**(16,288)**	(9,691)
– Minority interests		**–**	(715)
		(16,288)	(10,406)
Dividends	*10*	**–**	–
Loss per share (in RMB)	*11*		
– Basic		**(0.0339)**	(0.0202)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**1,752**	2,258
Interests in associates	*13*	**25,781**	41,025
Goodwill	*14*	**–**	–
Other intangible asset	*15*	**3,450**	3,750
Available-for-sale investments	*16*	**2,416**	1,916
Deferred tax assets	*20*	**–**	484
		33,399	49,433
Current assets			
Inventories	*17*	**8,663**	9,462
Trade receivables	*18*	**14,270**	21,230
Deposits, prepayments and other receivables		**32,969**	34,141
Amounts due from related parties	*27*	**1,579**	1,479
Amounts due from associates	*27*	**1,007**	1,025
Bank balances and cash		**43,811**	43,311
		102,299	110,648
Current liabilities			
Trade and bills payable	*19*	**10,796**	11,911
Other payables and accrued expenses		**29,720**	34,745
Amount due to an associate	*27*	**406**	832
Income tax payable		**–**	1,224
		40,922	48,712
Net current assets		**61,377**	61,936
Total assets less current liabilities		**94,776**	111,369
Capital and reserves			
Share capital	*21*	**48,000**	48,000
Reserves		**46,776**	63,369
Equity attributable to equity holders of the Company		**94,776**	111,369

The consolidated financial statements on pages 31 to 69 were approved and authorised for issue by the Board of Directors on 22 March 2007 and are signed on its behalf by :

Yuan Tingliang
Director

Wang Yiming
Director

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2006

	Share capital RMB'000	Share premium RMB'000	Capital reserve (Note 29(a)) RMB'000	Statutory reserves (Note 29(b)) RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
	Equity attributable to equity holders of the Company								
At 1 January 2005	48,000	61,068	16,000	223	(49)	(3,936)	121,306	110	121,416
Loss for the year	–	–	–	–	–	(9,691)	(9,691)	(715)	(10,406)
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	605	605
Exchange difference arising on translation of an overseas subsidiary	–	–	–	–	93	–	93	–	93
Exchange difference arising on translation of overseas associates	–	–	–	–	(339)	–	(339)	–	(339)
At 31 December 2005 and 1 January 2006	48,000	61,068	16,000	223	(295)	(13,627)	111,369	–	111,369
Loss for the year	–	–	–	–	–	(16,288)	(16,288)	–	(16,288)
Exchange difference arising on translation of an overseas subsidiary	–	–	–	–	199	–	199	–	199
Exchange difference arising on translation of overseas associates	–	–	–	–	(504)	–	(504)	–	(504)
At 31 December 2006	**48,000**	**61,068**	**16,000**	**223**	**(600)**	**(29,915)**	**94,776**	**–**	**94,776**

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Operating activities			
Loss before tax		**(16,578)**	(10,406)
Adjustments for:			
Depreciation of property, plant and equipment		**848**	1,318
Interest income		**(439)**	(255)
(Gain)/loss on disposal of property, plant and equipment		**(39)**	2
Impairment of goodwill		**2,624**	34
Amortisation of other intangible asset		**300**	300
Gain on deemed disposal of a subsidiary		**–**	(669)
Dividends from available-for-sale investments		**(150)**	–
Share of profits less losses of associates		**11,520**	3,291
Operating cash flows before movements in working capital		**(1,914)**	(6,385)
Decrease/(increase) in inventories		**799**	(560)
Decrease in trade receivables		**6,960**	11,530
Decrease/(increase) in deposits, prepayments and other receivables		**1,172**	(7,281)
Increase in amounts due from related parties		**(100)**	(463)
Decrease in amounts due from associates		**18**	216
(Decrease)/increase in trade and bills payable		**(1,115)**	5,400
(Decrease)/increase in other payables and accrued expenses		**(5,025)**	14,342
(Decrease)/increase in amount due to an associate		**(426)**	764
Cash generated from operations		**369**	17,563
Income taxes paid		**(450)**	(59)
Net cash (used in)/from operating activities		**(81)**	17,504
Investing activities			
Purchase of property, plant and equipment		**(361)**	(1,145)
Proceeds on disposal of property, plant and equipment		**58**	1
Payment for acquisition of interests in an associate		**–**	(18,584)
Payment for acquisition of available-for-sale investment		**(500)**	–
Deemed disposal of a subsidiary	*22*	**–**	(439)
Interest received		**439**	255
Dividends received from associates		**596**	185
Dividends received from available-for-sale investments		**150**	–
Net cash from/(used in) investing activities		**382**	(19,727)
Net increase/(decrease) in cash and cash equivalents		**301**	(2,223)
Effect of foreign exchange rate changes		**199**	(124)
Cash and cash equivalents at 1 January		**43,311**	45,658
Cash and cash equivalents at 31 December represented by bank balances and cash		**43,811**	43,311

1. GENERAL

Shanghai Jiadoa Withub Information Industrial Company Limited (the "Company") was incorporated on 4 May 1998 as a joint stock limited liability company in Shanghai, the People's Republic of China (the "PRC"). The Company was listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 July 2002 by the placing of 132,000,000 overseas listed foreign shares ("H shares") of RMB0.10 each at HK$0.66 per H share. The placing of 132,000,000 H shares included 120,000,000 new H shares and 12,000,000 H shares converted from domestic shares of the Company.

The address of the registered office of the Company is at 2/F., Block 7, 471 Gui Ping Road, Shanghai, PRC and its principal place of business is at 7/F., Withub Technology Building, 336 Caoxi Bei Road, Shanghai, PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the development and provision of business application solutions in the PRC which include business solutions, application software, network and data security products and are also engaged in the sales and distribution of computer and electrical products. Particulars of the Company's subsidiaries are set out in note 28 to the consolidated financial statements.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendments and interpretations will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments : Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Re-assessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange and by the Companies Ordinance.

(a) Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest 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.

(b) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. As cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised 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 identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(d) Other intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Research and development expenditures

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered on impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) Revenue recognition

When the outcome of provision of business solutions development and application software can be estimated reliably, revenue and costs are recognised according to the stage of completion of contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs except where this would not be representative of the stage of completion. The stage of completion is determined by reference to the value of works performed. Provisions are made for any foreseeable losses when they are identified and recognised immediately as an expense in the income statement. When the outcome of provision of business solutions development and application software cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that would probably be recoverable or to the extent of the value of works certified by the customers. Contract cost are recognised as expenses in the period in which they are incurred.

Sales of goods are recognised when goods are delivered and title has passed.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition (Continued)

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

(g) Income taxes

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

Current tax is based on the taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income taxes (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(h) Retirement benefits costs

Payment to state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(j) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets is set out below:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivable, other receivables and amount due from related parties, associates) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent years when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are investment in unlisted non-derivatives securities which are intended to be held for a continuing strategic or long term purpose or are designated. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if any increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instrument issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities are set out below:

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accrued expenses and amount due to an associate are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

(l) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

(m) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to the present value where the effect is material.

(n) Leases

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balances sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are note retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

4. TURNOVER

Turnover comprises

	2006 **RMB'000**	2005 RMB'000
Development and provision of:		
Business solutions development	**29,844**	46,385
Application software	**3,342**	124
Network and data security products	**–**	1,803
Sales and distribution of computer and electrical products and accessories	**89,264**	91,184
	122,450	139,496

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

5. SEGMENT INFORMATION

Business segments

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

Business application solutions: Develop and provide business application solutions services which include business solutions development, application software, network and data security products.

Sales of goods: Sales and distribution of computer and electrical products and accessories

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Segment information about these business is presented below.

For the year ended 31 December

	Business application solutions		Sales of goods		Consolidated	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
SEGMENT REVENUE						
Turnover from external customers	**33,186**	48,312	**89,264**	91,184	**122,450**	139,496
Interest income					**439**	255
Unallocated other revenue					**1,164**	3,807
					124,053	143,558
RESULTS						
Segment results	**5,424**	(10,868)	**2,585**	1,748	**8,009**	(9,120)
Unallocated operating (expenses)/income					**(13,067)**	1,336
Gain on deemed disposal of a subsidiary	**–**	669	**–**	–	**–**	669
Share of profits less losses of associates	**(11,520)**	(3,291)	**–**	–	**(11,520)**	(3,291)
Loss before tax					**(16,578)**	(10,406)
Income tax credit					**290**	–
Loss for the year					**(16,288)**	(10,406)

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Balance sheet as at 31 December

	Business application solutions		Sales of goods		Consolidated	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
ASSETS						
Segment assets	**21,215**	26,421	**17,609**	8,503	**38,824**	34,924
Interests in associates	**25,781**	41,025	**–**	–	**25,781**	41,025
Unallocated assets					**71,093**	84,132
Total assets					**135,698**	160,081
LIABILITIES						
Segment liabilities	**25,049**	15,680	**10,883**	11,785	**35,932**	27,465
Unallocated liabilities					**4,990**	21,247
Total liabilities					**40,922**	48,712
OTHER SEGMENT INFORMATION						
Capital expenditure incurred during the year	**361**	1,139	**–**	6	**361**	1,145
Depreciation and amortisation	**1,129**	1,554	**19**	64	**1,148**	1,618
Allowance for bad and doubtful debts	**153**	638	**129**	–	**282**	638
Write down/(reversal of write down) of inventories	**570**	(365)	**–**	–	**570**	(365)
Impairment of goodwill	**2,624**	34	**–**	–	**2,624**	34
Gain/(loss) on disposal of property, plant and equipment	**39**	(2)	**–**	–	**39**	(2)

5. SEGMENT INFORMATION (Continued)

Geographical segment

Over 95% of the Group's revenue were generated from customers in the PRC during the years ended 31 December 2006 and 2005 and all of the Group's assets were located in the PRC. Therefore, no geographical segment information is presented.

6. OTHER REVENUE

	2006	2005
	RMB'000	RMB'000
Interest income	**439**	255
Dividends from available-for-sale investments	**150**	–
Government grants (note)	**–**	525
Tuition fees	**197**	1,493
Gain on disposal of property, plant and equipment	**39**	–
Gain on deem disposal of a subsidiary	**–**	669
Rental income	**–**	1,302
Sundry	**778**	487
	1,603	4,731

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

7. LOSS BEFORE TAX

Loss before tax has been arrived at after charging/(crediting):

	2006	2005
	RMB'000	RMB'000
Staff costs (including directors' emoluments) (Note 8(a)) comprises:		
Salaries, wages and other benefits	**6,962**	9,723
Contributions to retirement benefits scheme	**739**	839
Total staff costs	**7,701**	10,562
Auditors' remuneration	**330**	685
Amortisation of other intangible assets	**300**	300
Depreciation of property, plant and equipment	**848**	1,318
Cost of inventories recognised as an expense	**107,829**	128,002
Research and development expenses	**578**	2,621
Loss on disposal of property, plant and equipment	**–**	2
Allowances for bad and doubtful debts	**282**	638
Impairment of goodwill	**2,624**	34
Write down/(reversal of write down) of inventories	**570**	(365)

8. DIRECTORS', SUPERVISORS, AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2006	2005
	RMB'000	RMB'000
Details of directors' emoluments are as follows:		
Fees	**13**	–
Salaries and other benefits	**180**	150
Contributions to retirement benefits scheme	**–**	–
	193	150

8. DIRECTORS', SUPERVISORS, AND EMPLOYEES' EMOLUMENTS

(Continued)

(a) Directors' emoluments (Continued)

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

	2006 RMB'000	2005 RMB'000
Independent non-executive directors		
Mr. Hu Shao-Ming, Herman		
Fees	**13**	–
Salaries and other benefits	**–**	–
Contributions to retirement benefits scheme	**–**	–
	13	–
Executive directors		
Wang Yiming		
Fees	**–**	–
Salaries and other benefits	**180**	150
Contributions to retirement benefits scheme	**–**	–
	180	150
Total	**193**	150

None of the executive and independent non-executive directors waive any emoluments for the years ended 31 December 2006 and 2005.

8. DIRECTORS', SUPERVISORS, EMPLOYEES' EMOLUMENTS

(Continued)

(b) Supervisors' emoluments

	2006 RMB'000	2005 RMB'000
Details of supervisors' emoluments are as follows:		
As supervisors	–	–
As employees		
– Salaries and other benefits	**72**	72
– Contributions to retirement benefits scheme	**21**	19
	93	91

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

	2006 RMB'000	2005 RMB'000
Qin Yan		
As supervisors	–	–
As employees		
– Salaries and other benefits	**72**	72
– Contributions to retirement benefits scheme	**21**	19
	93	91

8. DIRECTORS', SUPERVISORS, EMPLOYEES' EMOLUMENTS

(Continued)

(c) The highest paid individuals

The five highest paid individuals of the Group during the year included one (2005: one) director, details of whose emoluments are also set out in the directors' emoluments above. For the years ended 31 December 2006 and 2005, details of the emoluments of the remaining four (2005 : four) individuals are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other benefits	**663**	650
Contributions to retirement benefits scheme	**55**	84
	718	734

The emoluments of each of the highest paid individuals for the years ended 31 December 2006 and 2005 were within the band of nil to HK$1,000,000.

9. INCOME TAX CREDIT

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

	2006 RMB'000	2005 RMB'000
Current tax – PRC		
– tax for the year	**–**	–
– over-provision in prior years	**(774)**	–
Deferred tax (note 20)	**484**	–
	(290)	–

According to relevant PRC tax regulations, High and New Technology Enterprises ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. The Company is recognised as a HNTE and accordingly is subject to EIT at 15%. The recognition as a HNTE is subject to an annual review by the relevant government bodies. The subsidiaries of the Company are subject to applicable EIT rates ranging from 15% to 33%.

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

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

9. INCOME TAX CREDIT (Continued)

(b) The income tax credit for the year can be reconciled to the loss per the consolidated income statement as follows:

	2006 RMB'000	2005 RMB'000
Loss before tax	**(16,578)**	(10,406)
Tax at the PRC statutory tax rate of 33%	**(5,471)**	(3,434)
Tax effect of tax benefits of being a HNTE	**–**	1,056
Tax effect of non-deductible expenses	**1,426**	425
Tax effect of non-taxable income	**(55)**	(595)
Tax effect of unused tax losses not previously recognised	**(340)**	–
Tax effect of tax losses not recognised	**274**	1,536
Tax effect of share of profits less losses of associates	**3,802**	1,086
Over-provision in prior years	**(774)**	–
Other temporary differences not recognised	**848**	(82)
Effect of different tax rates of a subsidiary operating in other jurisdiction	**–**	8
Income tax credit for the year	**(290)**	–

10. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

11. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss attributable to equity holders of the Company of approximately RMB16,288,000 (2005: RMB9,691,000) and the weighted average number of 480,000,000 (2005: 480,000,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2006 and 2005 have not been calculated as there were no dilutive potential shares during those years.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2005	676	4,378	1,528	6,582
Additions	–	1,145	–	1,145
Disposals	–	(7)	–	(7)
Disposal of subsidiary	–	(302)	(460)	(762)
At 31 December 2005 and 1 January 2006	676	5,214	1,068	6,958
Additions	40	59	262	361
Disposals	–	(47)	(187)	(234)
At 31 December 2006	716	5,226	1,143	7,085
ACCUMULATED DEPRECIATION				
At 1 January 2005	360	2,606	645	3,611
Charge for the year	226	942	150	1,318
Eliminated on disposals	–	(4)	–	(4)
Disposal of a subsidiary	–	(188)	(37)	(225)
At 31 December 2005 and 1 January 2006	586	3,356	758	4,700
Charge for the year	95	630	123	848
Eliminated on disposals	–	(49)	(166)	(215)
At 31 December 2006	681	3,937	715	5,333
NET BOOK VALUES				
At 31 December 2006	35	1,289	428	1,752
At 31 December 2005	90	1,858	310	2,258

The above property, plant and equipment are depreciated at annual rates, on a straight-line basis, as follows:

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

13. INTERESTS IN ASSOCIATES

	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	**49,618**	49,618
Share of post-acquisition profits less losses, net of dividends	**(23,912)**	(11,292)
Goodwill	**75**	2,699
	25,781	41,025

The movement of goodwill included in interests in associates is set out below:

	2006 RMB'000	2005 RMB'000
COST		
At 1st January	**2,699**	75
Arising from acquisition of an associate	**–**	2,624
Impairment loss recognised	**(2,624)**	–
At 31st December	**75**	2,699

During the year ended 31 December 2006, the Group recognised an impairment loss of RMB2,624,000 in relation to goodwill arising on acquisition of a 45% interest in the issued ordinary shares of Union Genesis Limited ("UGL") as UGL and its subsidiaries (collectively referred to as the "UGL Group") have continuously incurred substantial losses which significantly impaired the net assets value of the UGL Group. The directors of the Group had significant doubt about the going concern of the UGL Group and were not certain about the probability of improvement in the profitability and solvency of the UGL Group in the foreseeable future and therefore considered that the goodwill in respect of UGL is fully impaired.

13. INTERESTS IN ASSOCIATES (Continued)

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

	2006 RMB'000	2005 RMB'000
Total assets	**141,210**	192,860
Total liabilities	**(120,867)**	(93,259)
Net assets	**20,343**	99,601
Group's share of net assets of associates	**25,706**	38,326
Revenue	**118,048**	113,615
Loss for the year	**(75,084)**	(12,458)
Group's shares of result of associates for the year	**(11,520)**	(3,291)

The Group has discontinued recognition of its share of losses of an associate. The amounts of unrecognised share of that associate, extracted from the relevant management accounts of the associate, both for the year and cumulatively, are as follows:

	2006 RMB'000	2005 RMB'000
Unrecognised share of losses of associates for the year	**19,539**	–
Accumulated unrecognised share of losses of associates	**19,539**	–

13. INTERESTS IN ASSOCIATES (Continued)

Particulars of associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	class of shares held	Group's effective interest	Proportion of ownership interest attributable to the Company and subsidiaries	Proportion of ownership interest attributable to an associate	Principal activities
Shanghai Withub Duogao Information Construction Company Limited	Private limited liability company (joint equity)	The PRC	Contributed capital	34.61%	34.61%	–	Design and installation of intelligent household systems
Shanghai Jiaoda Withub Technology Company Limited	Private limited liability company (joint equity)	The PRC	Contributed capital	44.44%	44.44%	–	Development and sales of business solutions
Shanghai Ton Tron Information Technology Company Limited	Private limited liability company (joint equity)	The PRC	Contributed capital	32%	32%	–	Development and sales of business solutions and computer accessories
Shanghai Jiaoda Science & Technology Park Information Techology (Shangrao) Company Limited	Private limited liability company (joint equity)	The PRC	Contributed capital	40%	40%	–	Research and development of high technology products and real estate management
Shanghai Jiaoda Withub Tong Yong Technology Company Limited	Private limited liability company (joint equity)	The PRC	Contributed capital	31.11%	–	70%	Development and sales of business solutions
Union Genesis Limited	Private limited liability company (joint equity)	British Virgin Islands	Ordinary	45%	45%	–	Design, produce and sales of consumer electronics hardware and software
C-NOVA Microsystems Limited	Private limited liability company (joint equity)	Hong Kong	Ordinary	45%	–	100%	Design, produce and sales of consumer electronics hardware and software
C-NOVA Microsystems (Shanghai) Limited	Private limited liability company (joint equity)	The PRC	Ordinary	45%	–	100%	Design, produce and sales of consumer electronics hardware and software

14. GOODWILL

	RMB'000
COST	
At 1 January 2005	230
Opening balance adjustment to eliminate accumulated amortisation	(196)
At 31 December 2005 and 2006	34
AMORTISATION AND IMPAIRMENT	
At 1 January 2005	196
Eliminated against cost at 1 January 2005	(196)
Impairment loss	34
At 31 December 2005 and 2006	34
NET BOOK VALUE	
At 31 December 2006	–
At 31 December 2005	–

15. OTHER INTANGIBLE ASSET

	RMB'000
COST	
At 1 January 2005, 31 December 2005 and 2006	6,000
ACCUMULATED AMORTISATION	
At 1 January 2005	1,950
Amortisation for the year	300
At 31 December 2005 and 1 January 2006	2,250
Amortisation for the year	300
At 31 December 2006	2,550
NET BOOK VALUE	
At 31 December 2006	3,450
At 31 December 2005	3,750

15. OTHER INTANGIBLE ASSET (Continued)

Intangible asset represents an one-off fee paid to Shanghai Jiao Tong University (上海交通大學) in exchange for the use of the name "交大慧谷"and the right to engage the Electronic Information Institute of Shanghai Jiao Tong University to provide research and development support on a cost reimbursement basis.

The total consideration paid for the above contractual rights is RMB6,000,000. The contract term is 10 years and is renewable for a further term of 10 years at the discretion of the Company.

Amortisation is charged to the consolidated income statement and grouped under administration expenses on a straight-line basis over 20 years.

16. AVAILABLE-FOR-SALE INVESTMENTS

	2006 **RMB'000**	2005 RMB'000
Equity interest in PRC private limited liability companies	**2,266**	1,766
Other investments	**150**	150
	2,416	1,916

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

Other investments represents transferable membership issued by the Shanghai Technology Stock Exchange for the right to trade in technology know-how and are measured at cost less any accumulated impairment losses. The market for such membership is not publicly quoted and therefore the fair value of the assets cannot be measured reliably.

17. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**231**	229
Work-in-progress	**630**	4,445
Merchandise for resale	**9,852**	6,268
	10,713	10,942
Write down of inventories	**(2,050)**	(1,480)
	8,663	9,462

As at the balance sheet date, inventory of carrying value of RMB364,000 (2005: Nil) were stated at net realisable value.

18. TRADE RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	**15,259**	21,937
Less: Accumulated impairment	**(989)**	(707)
	14,270	21,230

The normal credit terms the Group granted to its customers are 30 to 90 days. The aged analysis of trade receivables net of allowance for bad and doubtful debts is as follows:

	2006 RMB'000	2005 RMB'000
0 to 90 days	**10,957**	15,926
91 to 180 days	**1,367**	258
181 to 365 days	**1,681**	816
Exceeding 365 days	**265**	4,230
	14,270	21,230

19. TRADE AND BILLS PAYABLE

The following is an aged analysis of trade and bills payable at the balance sheet date:

	2006	2005
	RMB'000	RMB'000
0 to 90 days	**9,318**	7,815
91 to 180 days	**22**	–
181 to 365 days	**151**	129
Exceeding 365 days	**1,305**	3,967
	10,796	11,911

20. DEFERRED TAX ASSETS

The components of deferred tax assets (liabilities) recognised in the Group's balance sheet and the movements during the year and prior years are as follows:

	Write down of inventories	**Impairment of receivables**	**Other temporary differences**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	418	151	(85)	484
Credited/(charged) to consolidated income statement	(97)	45	52	–
At 31 December 2005	321	196	(33)	484
Credited/(charged) to consolidated income statement	(321)	(196)	33	(484)
At 31 December 2006	**–**	**–**	**–**	**–**

At the balance sheet date, the Group had unexpired estimated tax losses available for off-setting future taxable profits of approximately RMB14,118,000 (2005: RMB14,317,000). Deferred tax asset has not been recognised for such tax losses as future profit stream is uncertain.

At 31 December 2006, the Group had deductible temporary differences of RMB2,571,000. Deferred tax asset has not been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

21. SHARE CAPITAL

	2006 RMB'000	2005 RMB'000
Registered, issued and fully paid:		
480,000,000 shares of RMB0.1 each	**48,000**	48,000

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

No option was granted by the Company since adoption of the share option scheme in July 2002.

22. DEEMED DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2005, a 40%-owned subsidiary of the Company, the control over more than half of the voting rights which had been obtained through the endorsement of voting rights to the Company by two minority shareholders, increased its issued capital by subscription from a third party and the Group's effective shareholding was decreased from 40% to 6.67% and ceased to control over more than half of the voting rights. The net liabilities of such subsidiary at the date of disposal were as follows:

	RMB'000
Net assets disposed of	
Plant and equipment	537
Inventories	940
Trade receivables	238
Deposits, prepayments and other receivables	992
Bank balances and cash	439
Trade and bills payables	(390)
Other payables and accrued expenses	(3,764)
Net liabilities	(1,008)
Minority interest	605
Gain on deemed disposal	669
Carrying value of investment upon deemed disposal (classified as available-for-sale investment)	266
Net cash outflow arising on disposal	
Bank balances and cash disposed of	(439)

23. RETIREMENT BENEFITS SCHEME

As stipulated by PRC regulations, the Group maintains defined contribution retirement plans for all of its employees. The Group contributes to a State-managed retirement plan at approximately 22% of the basic salary of its employees, and has no further obligation for actual pension payments or post-retirement benefits beyond the annual contributions. The State-managed retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the year amounted to approximately RMB739,000 (2005: RMB839,000).

24. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management has made the following judgements that have significant effect on the amounts recognised in the consolidated financial statements. 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 also discussed below.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the trade receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these trade 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 allowance may be required.

Allowance of inventories

The management of the Group reviews ageing analysis at each balance sheet date and makes allowance for obsolete and slow-moving inventory items identified. The management also estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions which involve judgement in respect of the expectation about the market condition and the future demand for such items in inventory.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Fair value and cash flow interest rate risk

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

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movement in exchange rate relating to investment and transaction denominated in foreign currencies. The Group's monetary assets and transactions are denominated in RMB, HKD and USD. Though the exchange rates between RMB, HKD and USD are not pegged, there are relatively low level of fluctuation in exchange rates among RMB, HKD and USD. The management did notice the recent appreciation in the exchange rate of RMB to HKD and USD and are of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

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

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Credit risk

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

Fair value

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

26. OPERATING LEASE COMMITMENTS

The Group leases a number of office premises in the PRC under operating leases. Leases are normally negotiated for an average term of 1 year and rentals are fixed for an average of 1 year.

	2006 **RMB'000**	2005 RMB'000
Minimum lease payments paid unber operating leases in respect of land and buildings	**350**	2,521

At the balance sheet date, the Group, had commitments for future minimun lease payments under non-cancellable operating leases which fall due within one year of approximately RMB 334,000 (2005: RMB 372,000)

27. RELATED PARTY TRANSACTIONS

(i) Name and relationship of related parties

Name of related parties	Relationship	Amount due from related parties 2006 RMB'000	2005 RMB'000
Shanghai Jiao Tong University	Shareholder of Shanghai Jiaoda Science and Technology Park Company Limited	**–**	–
Shanghai Jiaoda Science and Technology Park Company Limited	Shareholder of the Company	**–**	–
Shanghai Jiao Tong University Education (Group) Company Limited	Subsidiary of Shanghai Jiao Tong University	**1,000**	1,000
Shanghai Huikang Information Technology Company Limited	Company controlled by a director of the Company	**579**	479
		1,579	1,479

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

	2006 RMB'000	2005 RMB'000
(a) Project income from an associate		
– Shanghai Ton Tron Information Technology Company Limited	**800**	1,038
(b) Purchase from associates		
– Shanghai Ton Tron Information Technology Company Limited	**1,038**	–
– Shanghai Jiaoda Withub Technology Company Limited	**338**	–

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

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

(iv) The remuneration of directors and other members of key management during the year are set out in note 8 to the consolidated financial statements. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trend.

28. SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name of company	Place of incorporation and operation	Class of shares held	Registered/ issued capital	Percentage of equity interest directly attributable to the Company		Principal activities
				2006	2005	
Shanghai Jiaoda Withub Software Company Limited*	The PRC	Contributed capital	RMB5,000,000	**82**	82	Development and sales of business solutions and software (note (i))
Shanghai Withub Information and Professional Training School**	The PRC	Contributed capital	RMB1,000,000	**100** (note (ii))	100	Provision of tuition and training services
Jiaoda Withub (Hong Kong) Limited***	Hong Kong	Ordinary	HKD12,000,000	**100**	100	Development and sales of business solutions and software

* private limited liability company (domestic joint equity)

** private unincorporated entity

*** private limited liability company

Note (i) Shanghai Jiaoda Withub Software Company Limited has ceased business during the year and became inactive.

(ii) Shanghai Withub Information Professional Training School (the "School") is a non-profit making entity with a paid-up capital of RMB1,000,000. According to the articles of association of the School and the relevant regulations in the PRC governing educational institutions, all earnings and receipts from the School can only be used to improve its internal facilities and training standard and cannot be used for any other purposes or be distributed to its organizer.

The condensed balance sheets of the School, being one of the consolidated subsidiaries, at 31 December 2006 and 2005 are as follows:

	2006 RMB'000	2005 RMB'000
Bank balances	**1**	3
Current assets other than bank balances	**1,000**	1,218
	1,001	1,221
Current liabilities	**(5)**	(230)
Net assets	**996**	991

Note : As at the balance sheet date, the School did not have any retained profits (2005: Nil)

29. RESERVES

(a) Capital reserve

The Company, in the early stage of its incorporation, obtained technology know-how from a promoter of the Company, Shanghai Jiao Tong University, at nil consideration. In February 2000, the Company injected this technology know-how, being the Courts Management Information System into Shanghai Jiaoda Withub Technology Company Limited ("Withub Technology"), at a value of RMB16,000,000 in exchange for 44.44% equity interest in Withub Technology. The value of the contributed technology know-how by Shanghai Jiao Tong University was booked in the capital reserve account of the Company.

The capital reserve is non-distributable.

(b) Basis of appropriations to statutory reserves

Statutory reserves comprise statutory surplus reserve and statutory public welfare reserve.

The transfers to statutory common reserve and statutory public welfare reserve are based on the net profit under the financial statements prepared using PRC accounting standards.

(i) Statutory surplus reserve

The PRC Company Law requires the appropriation of 10% of the Group's profit after tax each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. In normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of the statutory surplus reserve into share capital, the remaining amount of such reserve after capitalisation shall not be less than 25% of the registered share capital.

(ii) Statutory public welfare reserve

Prior to 1st January 2006, the Group is required in each year to transfer 5% to 10% of the profit after taxation as reported in the statutory accounts prepared in accordance with the PRC accounting standards to the statutory public welfare reserve. Starting from 1st January 2006 the Group is not required to transfer any profit after tax to statutory public welfare reserve in accordance with the amendment in the PRC Companies Ordinance. Therefore, the Group transferred all the balances of the statutory public welfare reserve as at 31 December 2005 to the statutory surplus reserve during the year.

30. COMPARATIVE FIGURES

Certain comparative amounts for the year ended 31 December 2005 have been reclassified to conform with the current year's presentation. Research and development expenses and gain on deemed disposal of a subsidiary have been reclassified to be included in administrative expenses and other revenue respectively instead of being presented as separate line items in the consolidated income statement.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2006 RMB'000	2005 RMB'000	2004 (restated) RMB'000	2003 (restated) RMB'000	2002 (restated) RMB'000
Turnover	**122,450**	139,496	132,269	148,821	88,732
(Loss)/profit before tax	**(16,578)**	(10,406)	(868)	1,265	5,403
Tax (income)/expense	**290**	–	(319)	168	(722)
(Loss)/profit for the year	**(16,288)**	(10,406)	(1,187)	1,433	4,681
Attributable to:					
– Equity holders of the Company	**(16,288)**	(9,691)	(1,068)	1,810	4,163
– Minority interests	**–**	(715)	(119)	(377)	518
Dividends	**–**	–	–	–	–
(Loss) earnings per share (in RMB)					
– Basic	**(0.0339)**	(0.0202)	(0.0022)	0.0038	0.0101
– Diluted	**N/A**	N/A	N/A	N/A	N/A

ASSETS AND LIABILITIES

	Year ended 31 December				
	2006 RMB'000	2005 RMB'000	2004 (restated) RMB'000	2003 (restated) RMB'000	2002 (restated) RMB'000
Non-current assets	**33,399**	49,433	35,445	36,810	26,495
Current assets	**102,299**	110,648	118,607	130,077	124,661
Total assets	**135,698**	160,081	154,052	166,887	151,156
Current liabilities	**40,922**	48,712	32,636	44,235	29,937
Total net assets	**94,776**	111,369	121,416	122,652	121,219
Share capital	**48,000**	48,000	48,000	48,000	48,000
Reserves	**46,776**	63,369	73,306	74,423	72,613
	94,776	111,369	121,306	122,423	120,613
Minority interest	**–**	–	110	229	606
	94,776	111,369	121,416	122,652	121,219