



北京北大青鸟环宇科技股份有限公司  
**BEIJING BEIDA JADE BIRD UNIVERSAL SCI-TECH COMPANY LIMITED**

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

**(Stock Code: 8095)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2004**

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

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## CHAIRMAN'S STATEMENT

During the year, the Group achieved a very substantial growth of operating profit from RMB16 million in 2003 to RMB243 million, despite the fact that the Group's turnover decreased by 35% from RMB131 million for the year as compared to last year's RMB200 million. The huge increase in operating profit is largely attributable to the disposal of part of the Group's interest in Semiconductor Manufacturing International Corporation ("SMIC") as mentioned in next paragraph.

In March 2004, SMIC issued a prospectus in relation to the global offering of its shares. In this connection, the Group disposed of part of its shares investment in SMIC of 156,842,000 shares with net proceeds of approximately RMB437 million and a gain of approximately RMB289 million. After the disposal, the Group still holds 383,163,400 ordinary shares in SMIC, representing approximately 2.1 % of the issued share capital of SMIC.

Among the Group's different business segments, the wireless fire alarm system ("WFAS") was the biggest profit contributor. For the year ended 31 December 2004, the turnover and profit contributed from the wireless fire alarm system products were RMB44,244,000 and RMB7,302,000 respectively.

The success of WFAS was principally due to the improved product quality and reliability in attracting customers of different industrial sectors. Accompanied by the expansion of distribution network across the nation in the People's Republic of China (the "PRC") and the strengthening of the after-sale services, WFAS is capable to attain a significant growth in revenue by 42% from last year's; and together with the improved gross margin through tighter cost control, WFAS is capable to become the Group's biggest contributing business segment in this year. WFAS is one of the top five fire alarm participants in the PRC market.

During the year, the Group had also rationalized its business operating structure by disposing its 60% subsidiary, Beijing Beida Jade Bird Silicon Innovation Company Limited, whose operating results for few years after establishment were below the Board's expectation.

The prevailing information technology ("IT") market is very competitive in the PRC and most of the IT participants is confronting with new challenge. Under this circumstances, the Group is finding its way to diversify and explore new avenue. In March 2005, the Group had taken its move to sign up a conditional agreement to invest into a transportation hub property project in city centre of Beijing on the Board's believing in the potential of the property sector of Beijing before and after the 2008 Olympics Games. The Board at the same time hope this property project, after the Group's equity interest is secured in the future, could bring in new opportunity to the Group's existing IT businesses in terms of, for example, provision of wireless fire alarm systems and network security systems etc.

## RESULTS

The Directors have pleasure of presenting the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2004, together with the comparative figures for the year ended 31 December 2003, as follows:

	<i>Notes</i>	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
TURNOVER	2	130,503	199,740
Investment income, other revenue and gains	2	293,535	1,877
Operating expenses:			
Materials and equipment		(102,442)	(148,037)
Employee costs		(18,406)	(18,021)
Depreciation of property, plant and equipment		(3,190)	(3,203)
Amortisation of goodwill and intangible assets		(5,886)	(6,230)
Impairment of goodwill		(3,556)	–
Other operating expenses		(47,379)	(9,814)
Total operating expenses		<u>(180,859)</u>	<u>(185,305)</u>
PROFIT FROM OPERATING ACTIVITIES		243,179	16,312
Finance income/(cost)			
Interest income		3,095	3,020
Interest expense		(11,328)	(12,425)
PROFIT BEFORE TAX		234,946	6,907
Tax	3	<u>(3,280)</u>	<u>(2,399)</u>
PROFIT BEFORE MINORITY INTERESTS		231,666	4,508
Minority interests		<u>2,519</u>	<u>2,628</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTIBUTABLE TO SHAREHOLDERS		234,185	7,136
DIVIDENDS			
Interim		<u>(11,848)</u>	<u>–</u>
		<u>222,337</u>	<u>7,136</u>
EARNINGS PER SHARE – Basic (RMB cents)	4	<u>20.4</u>	<u>0.7</u>

## 1. Principal Activities and Basis of Presentation

The Group is principally engaged in the research, development, production, marketing and sales of embedded systems, including network security products (“NET”), wireless fire alarm systems (“WFAS”), application specific integrated circuits (“ASIC”), global positioning system (“GPS”), smart card application systems (“IC”), remote automatic meter-reading systems (“RMR”) and related products. The Group is also engaged in the sales of computer products (“Computer”) and the provision of total solution services through application of its existing embedded system products.

The principal accounting policies adopted by the Group conform to Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong.

## 2. Turnover, Investment Income, Other Revenue and Gain

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of services rendered, net of sales surtaxes during the year. All significant intra-group transactions have been eliminated on consolidation.

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of embedded systems and related products	77,206	114,926
Sales of computer products	50,869	70,421
Provision of total solution services	2,428	14,393
	<u>130,503</u>	<u>199,740</u>
Investment Income		
Gain on disposal of long term investment	289,214	–
Other revenue		
Gross rental income	–	315
Others	1,165	200
	<u>1,165</u>	<u>515</u>
Gains		
Gain on disposal of a subsidiary	1,254	–
Gain on debt restructuring *	1,902	–
Gain on disposal of a business	–	1,362
	<u>3,156</u>	<u>1,362</u>
	<u>293,535</u>	<u>1,877</u>

\* In the current year, Hebei Beida Jade Bird Universal Fire Alarm Company Limited (“Hebei Fire Alarm”) reached an agreement with a bank to restructure a bank loan of RMB3,060,000. Pursuant to the agreement, Hebei Fire Alarm was allowed to settle the bank loan amounting to RMB3,060,000 with the bank by certain property of Hebei Fire Alarm for a total carrying amount of appropriately RMB1,158,000. The bank agreed to waive for the rest of the bank loan of RMB1,902,000 and hence, the amount waived was recorded in the consolidated profit and loss account in 2004 accordingly.

### 3. Taxation

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2003: Nil).

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

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
Current – Hong Kong	–	–
– Mainland China	<u>3,280</u>	<u>2,399</u>
Total tax charge for the year	<u><u>3,280</u></u>	<u><u>2,399</u></u>

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

	<b>2004</b> <i>RMB'000</i>	%	<b>2003</b> <i>RMB'000</i>	%
Profit before tax	234,946		6,907	
Tax at the statutory tax rate	77,532	33.0	2,280	33.0
Lower tax rate for specific provinces or local authority	(268)	(0.1)	(1,695)	(24.5)
Income not subject to tax	(95,441)	(40.6)	(330)	(4.8)
Expenses not deductible for tax	898	0.4	985	14.3
Tax exemptions	(134)	(0.1)	(1,036)	(15.0)
Benefit from operating losses not recorded	<u>20,693</u>	<u>8.8</u>	<u>2,195</u>	<u>31.7</u>
Tax charge at the Group's effective rate	<u><u>3,280</u></u>	<u><u>1.4</u></u>	<u><u>2,399</u></u>	<u><u>34.7</u></u>

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

Beijing Jade Bird Haodi Electric System Company Limited (“Jade Bird Haodi”) is registered in the Beijing New Technology Enterprise Development Zone and has been certified by the relevant PRC authorities as a high technology enterprise. Pursuant to the Income Tax Law in the PRC, Jade Bird Haodi is subject to corporate income tax at a rate of 15%. In accordance with an approval document issued by the relevant tax bureau, Jade Bird Haodi was granted income tax exemption for the three years ended 31 December 2000 and 50% reduction in corporate income tax for the three years ended 31 December 2003. From 1 January 2004 onwards, Jade Bird Haodi is subject to income tax at a rate of 33%.

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

At 31 December 2004, there is no significant unrecognized deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the directors do not have intention to remit such earnings to the Company in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

#### 4. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 of RMB234,185,000 (2003: RMB7,136,000), and the weighted average of 1,146,828,415 (2003: 1,032,273,973) ordinary shares in issues during the year as reflected the new placement of H shares during the year.

The weighted average number of shares used to calculate the current year's basic earnings per share includes 1,104,000,000 shares issued from the beginning of 2004 to 20 June 2004 and the new placement of 80,800,000 H shares by the Company on 21 June 2004.

A diluted earnings per share amount for year ended 31 December 2004 has not been disclosed as no diluting events existed during the year.

#### DIVIDENDS

An interim dividend of RMB11,848,000 (RMB1 cent per share) was declared and paid in 2004 (2003: Nil).

The board of directors do not recommend the payment of a final dividend (2003: Nil).

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

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

#### SHARE CAPITAL AND RESERVES

	Issued share capital* RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
As at 31 December 2002 and 1 January 2003	96,400	251,271	16,649	77,503	441,823
Issue of H shares	14,000	75,164	–	–	89,164
Share issue expenses	–	(5,610)	–	–	(5,610)
Payable written back (i)	–	1,654	–	–	1,654
Net profit for the year	–	–	–	7,136	7,136
Transfer from/(to) reserves	–	–	1,218	(1,218)	–
As at 31 December 2003 and 1 January 2004	110,400	322,479	17,867	83,421	534,167
Issue of H Shares	8,080	56,210	–	–	64,290
Share issue expenses	–	(2,396)	–	–	(2,396)
Net profit for the year	–	–	–	234,185	234,185
Transfer to capital reserve (ii)	–	1,427	–	(1,427)	–
Transfer from/(to) reserves	–	–	35,084	(35,084)	–
Interim dividend	–	–	–	(11,848)	(11,848)
As at 31 December 2004	<u>118,480</u>	<u>377,720</u>	<u>52,951</u>	<u>269,247</u>	<u>818,398</u>

- \* *The capital reserve may only be used to increase share capital.*
- (i) *In 2003, the Company reached a waiver agreement with an unrelated party, who had provided services to the Company during the listing of the Company's H shares on the GEM of the Stock Exchange in July 2000. Pursuant to the waiver agreement, the amount had been recorded as part of the issuance expenses for the listing in 2000 and in accordance with the prevailing accounting principles and regulations in the People's Republic of China, the amount waived was included in capital reserve account in 2003 accordingly.*
- (ii) *In the current year, Hebei Beida Jade Bird Universal Fire Alarm Device Company Limited ("Hebei Fire Alarm"), a subsidiary of the Company, reached an agreement with a bank to restructure a bank loan of RMB3,060,000. Pursuant to the agreement, Hebei Fire Alarm was allowed to settle the bank loan by certain of its property with a total carrying amount of approximately RMB1,158,000, leading to a gain of approximately RMB1,902,000 recognised in the profit and loss account for the year. After taking into account minority interests and income tax effect, the net gain resulting from this debt restructuring attributable to the shareholders of the Company is approximately RMB1,427,000 which is required to be transferred to a capital reserve in accordance with PRC accounting principles and regulations.*

## SEGMENT INFORMATION

### (a) Business segments

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

	NET	WFAS	ASIC	2004 RMB'000				Total	2003
				GPS	IC	RMR	Computer		RMB'000 Total
<b>REVENUE</b>									
Sales to external customers	9,430	44,244	25,434	–	106	420	50,869	130,503	199,740
<b>RESULTS</b>									
Segment results	(4,325)	7,302	787	–	(39)	(2,390)	362	1,697	20,708
Investment income								289,214	–
Interest income								3,095	3,020
Interest expense								(11,328)	(12,425)
Unallocated corporate expenses								(47,732)	(4,396)
Profit before tax								234,946	6,907
Tax								(3,280)	(2,399)
Profit before minority Interests								231,666	4,508
Minority interests								2,519	2,628
Net profit from ordinary activities attributable to shareholders								234,185	7,136
<b>ASSETS</b>									
Segment assets	16,766	45,007	558	1,019	77	3,035	492,520	558,982	169,366
Less: Intersegment assets	–	–	–	–	–	–	(96,460)	(96,460)	(7,180)
Unallocated corporate assets								725,960	832,869
Total assets								1,188,482	995,055
<b>LIABILITIES</b>									
Segment liabilities	4,112	28,110	–	1,064	49	4,437	19,108	56,880	72,738
Less: Intersegment liabilities	(186)	(13,507)	–	–	–	(499)	–	(14,192)	(17,107)
Unallocated corporate liabilities								323,926	399,126
Total liabilities								366,614	454,757
<b>OTHER SEGMENT INFORMATION</b>									
Capital expenditure	92	5,234	–	–	–	–	2,541	7,867	983
Depreciation for property, plant and equipment	504	1,746	295	40	2	38	565	3,190	3,203
Amortisation of goodwill	439	3,500	–	–	–	1,707	–	5,646	5,990
Amortisation of intangible assets	–	–	240	–	–	–	–	240	240
Impairment of goodwill	–	–	–	–	–	3,556	–	3,556	–
Provision for/(write-back of) doubtful debts	29,921	2,631	271	–	515	1,456	(260)	34,534	(1,603)
Provision against obsolete and slow-moving inventories	–	–	–	–	–	338	–	338	336



## (b) Geographical segments

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

	Mainland China		Hong Kong		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
Sales to external customers	<u>100,220</u>	<u>155,994</u>	<u>30,283</u>	<u>43,746</u>	<u>130,503</u>	<u>199,740</u>
Other segment information						
Segment assets	<u>1,175,846</u>	<u>987,629</u>	<u>14,636</u>	<u>7,426</u>	<u>1,188,482</u>	<u>955,055</u>
Capital expenditure	<u>7,867</u>	<u>983</u>	<u>-</u>	<u>-</u>	<u>7,867</u>	<u>983</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Turnover

The audited consolidated turnover of the Group for the year ended 31 December 2004 amounted to RMB130,503,000 (2003 – RMB199,740,000).

The decrease in turnover was primarily due to a substantial reduction in both the sales of embedded systems and related products which recorded a decrease of RMB37.7 million to RMB77.2 million from RMB114.9 million in last year, as well as the sale of computer products which recorded a decrease of RMB19.5 million to RMB50.9 million from RMB70.4 million in last year. The higher margin total solution services business also experienced a significant decrease of RMB12.0 million to RMB2.4 million from RMB14.4 million in last year. The overall decrease is mainly attributable to the competitive market in the PRC and the lower than expected revenue achieved by a subsidiary disposed near the year end which was engaged in integrated circuits business. For the year ended 31 December 2004, the turnover from the sales of embedded system products and related products, sales of computer products and total solution services were approximately 59%, 39% and 2% respectively as compared to the more evenly distributed sales mix of 57%, 35% and 8% respectively in the last year.

#### Operating Profit

The operating profit of the Group for the year ended 31 December 2004 amounted to RMB243,179,000 (2003 – RMB16,312,000). The significant increase was due to the recording of the investment income of RMB289,214,000 million (2003: Nil) on disposal of part of the Group's interest in Semiconductor Manufacturing International Corporation ("SMIC") in March 2004.

On the other hand, the operating results of the Group in other areas were affected by the decrease in the revenue of total solution services which carried a higher margin. In addition, sales of embedded systems as well as sales of computer products also recorded decrease in gross profit margin. During the year, the Group also recorded a substantial provision for doubtful debts of RMB34,534,000 (2003: write-back of RMB1,603,000) because the management adopted a conservative approach in one-off re-assessing the recoverable value of long outstanding accounts receivable.

## **Finance Cost**

The interest expense recorded a slight decrease of RMB1.1 million to RMB11.3 million from RMB12.4 million in last year. It was mainly due to the USD 10 million partial repayment of the Group's bank loan during the year.

## **Profit Attributable to Shareholders**

The profit attributable to shareholders and earnings per share of the Group for the year ended 31 December 2004 were RMB234,185,000 (2003 – RMB7,136,000) and RMB20.4 cents (2003 – RMB0.7 cent) respectively.

## **Liquidity and Financial Resources**

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

As at 31 December 2004, the Group had cash on hand of RMB322 million and USD short term bank loans totaling RMB310 million (USD37.5 million) borrowed for financing the investment in SMIC. The aforesaid USD short term bank loans were guaranteed by a shareholder of the Company and a subsidiary of Peking University.

On 8 June 2004, the Company entered into a placing agreement with a placing agent for the placing of 80,800,000 new H Shares at a price of HK\$0.75 per H share ("the Placing"). On 18 June 2004, the Company completed the Placing and obtained the approval from GEM Listing Committee for the listing of and permission to deal in the 80,800,000 new H Shares. The proceeds from the Placing were credited to the books of the Company in June 2004 and was used for general working capital purpose. The dealings of new H shares commenced on 21 June 2004.

## **Other Financial Measures**

As at 31 December 2004, the Group had a gearing ratio (the ratio of total borrowings to total equity) and net current ratio (the ratio of current liabilities to total assets of 38% and 31%, respectively.

As at 31 December 2004, the Group had capital commitments of RMB2,461,000 (2003: Nil) and no contingent liabilities. (2003: Nil)

As at 31 December 2004, the Group did not have any buildings, machinery and equipment pledged as collateral for the Group's banking facilities. As at 31 December 2003, the Group's buildings, machinery and equipment with an aggregate net book value of approximately RMB1,097,000 were pledged as collateral for the Group's banking facilities.

## **BUSINESS REVIEW**

### *Network Security System*

During the year, the Group completed the research and development of H323 agent technology and continued develop centralised control channel technology. The Group has completed the production of 70 units of JB-FW1/100 and 8 units of JB-FW1/1000. During the period, the Group completed the grading assessment by China Ministry of Public Security.

During the year, Wuhan Beida Jade Bird Netsoft Company Limited (“Wuhan Netsoft”), a subsidiary of the Company, has completed the research and development of the network management platform software NetSureExpert5.3 version (enhanced version with supporting the multi-layer infrastructure technology) and also NetSureExpert5.31 version. Wuhan Netsoft is currently developing the desktop management function module technology (WMI) and plans to develop NetSureExpert5.4 version, VLAN and MPLS VPN technology. During the year, the following projects were completed: Service contracts with The People’s Procuratorate of Wuhan, China Southern Aviation Industry Co., Ltd, PetroChina South China Distribution Ltd, Shandong Tobacco Ltd, North China Pharmaceutical Group Corporation, Department of Education of Guangzhou, Nanjing University of Posts, Harbin Normal University, Handan Municipal Government etc.

For the year ended 31 December 2004, the turnover and loss incurred by the network security system products were RMB9,430,000 and RMB4,325,000 respectively.

### *Wireless Fire Alarm System*

In term of the network, during the period, the Group had completed the research and development of the municipal concentrative fire protection application technology. The Group is researching the application of embedded system on the fire protection application technology, as well as the low-pressured carbon dioxide controller technology. In term of the hardware, during the period, the Group had completed the research and development of the network communication card, the fire alarm controller (linkage), the non-address feeling smoke detector, the non-establishment feeling warm detector product, right now researches and develops the feeling smoke detector (the PIC16F676 chip) the product.

During the period, the Group manufactured 20 units of the JB-QB-JBF-11S/CD6 fire alarm controller (linkage) and 8600 units of the JTW-ZD-LN2110/C non- address feeling warm detector.

During the period, the Group completed the major project for Jingmen Project of Beijing Longjian Group Ltd., Beijing Century Spring Garden Project of Shanghai Hehe Engineering Technology Ltd., State Administration Taxation Huairou Training Centre of Huaian Fair Protection Co., Ltd. and Shuang Garden Project of Beijing Andisheng Security System Autoimmunization Ltd.

During the period, the Group participated in various types of exhibitions, such as the 10th International Fire Fighting Equipment Technological Exchange Exhibition held by China Fire Protection Association, and National Fire Prevention Standardization Technical Committee Sixth Technical Sub-Committee held by National Technical Committee for Fire Protection Standardization, establishment meeting of China Fire Protection Association Electronic Profession Branch held by China Fire Protection Association Fire Prevention Electronic Profession Branch; “Fire Auto-alarm System Construction and Approval Standard” (revision for approval manuscript) the examining committee held by Shenyang Fire Prevention Research Institute of China Ministry of Public Security. As a consequence, the Group’s fire protection products were extensively promoted and their brand images were well established in the industry.

For the year ended 31 December 2004, the turnover and profit contributed from the wireless fire alarm system products were RMB44,244,000 and RMB7,302,000 respectively.

#### *Security ICs*

During the year, the Group disposed of a 60% held subsidiary, Beijing Silicon Innovation Company Limited for a cash consideration of RMB3,600,000 and at a gain of RMB1,254,000. The disposal was made due to the lower than expected revenue achieved since establishment of the subsidiary few years ago.

For the year ended 31 December 2004, the turnover and profit contributed from the security ICs products were RMB25,434,000 and RMB787,000 respectively.

#### *Smart Card Application System*

For the year ended 31 December 2004, the turnover and loss incurred by the smart cards application system products were RMB106,000 and RMB39,000 respectively.

#### *Remote Meter Reading System*

For the year ended 31 December 2004, the turnover and loss remote meter reading system products were RMB420,000 and RMB2,390,000 respectively.

#### *Computer products*

The significant drop in sale of computer products was predominantly owing to less efforts spent in promoting the sale of computer products in light of the slimmer profit margin under the prevailing highly competitive IT market in the PRC.

For the year ended 31 December 2004, the turnover and profit contributed from computer products were RMB50,869,000 and RMB362,000 respectively.

#### *Semiconductor Manufacturing International Corporation (“SMIC”)*

2004 was a remarkable year with significant achievements for SMIC. In January 2004, SMIC completed the acquisition of Fab 7, an 8-inch wafer fab located in Tianjin, China, and commenced mass production in May 2004. In March 2004, SMIC successfully completed initial public offering on both the New York Stock Exchange and the Hong Kong Stock Exchange, raising approximately US\$1 billion. In July 2004, SMIC commenced pilot production at Fab 4, being China’s first 12-inch fab, in Beijing. For the year ended 31 December 2004, SMIC also achieved its first year of profitability.

While 2005 looks to be a year of flat growth for the semiconductor industry with demand improving as the year progresses, SMIC will continue to aggressively pursue new customers both globally and domestically by offering them leading edge foundry services. SMIC believe that the Greater China region will continue to exhibit strong growth and demand.

#### *Government Approval and Awards*

In November 2004, the Beida Jade Bird gateway firewall JB-FW1/100 and JB-FW1/1000 was awarded computer information system security specialized product sale permission certificate issued by the China Ministry of Public Security Public Information Network Security Supervision Bureau.

Feeling smoke detector JBF-LN-2100/C and JBF-LN-2110/C obtained the quality approval examination certificate issued by the National Fire Prevention Electronic Products Quality Surveillance Test Center.

### *Staff*

At present, the Group has approximately 225 (2003 – 202) employees, of which 2 possess the doctorate degree, 28 possess the master degree and 122 possess the bachelor degree. Under the Group's existing organization structure, the research, development and technical support team has over 117 members, while the marketing and sales team has 52 members.

## **EXTRACTS OF REPORT OF THE AUDITORS**

### **Basis of opinion (extracts)**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence made available to us by the Group was limited because sufficient information and explanations necessary to enable us to understand and assess the recoverability of the amount due from related parties of RMB320 million have not been available. Details of the amounts due from related parties are set out in note 21 to the financial statements. There were no other satisfactory audit procedures that we could adopt to understand and assess the recoverability of the aforesaid amounts due from related parties.

### **Qualified opinion arising from limitation of audit scope**

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the recoverability of the amounts due from related parties of approximately RMB320 million, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **EXTRACTS OF NOTE 21 TO THE FINANCIAL STATEMENTS**

### **Balances with related parties**

Except for the amount due from Beijing Beida On-line Network Company Limited ("Beida On-line") which bears interest at an annual interest rate of 5.13%, all other balances with related parties at 31 December 2004 were interest-free. All balances with related parties were unsecured and did not have fixed repayment terms.

Subsequent to the balance sheet date, an aggregate amount of balances due from related parties of approximately RMB92,000,000 has been received by the Group.

Included in the amounts due from related parties as at 31 December 2004 was a sum of approximately RMB320 million, representing approximately RMB287 million as to Hong Kong Jade Bird Sci-Tech Limited and approximately RMB33 million as to Wisdom New Group Limited, both of which are controlled by Beijing Beida Jade Bird Limited ("Beida Jade Bird"). Pursuant to a share transfer agreement (the "Agreement") entered into with Beida Jade Bird on 24 March 2005, the sum was utilised as earnest money for acquiring a 44% equity interest in a property development company in Beijing. The Directors expect that the proposed acquisition transaction shall take place on or before 31 July 2005. In connection

with the Agreement and the proposed acquisition, the Company has made an announcement to that effect on 24 March 2005. Pursuant to the Agreement, the earnest money shall be fully refunded to the Company, without interest, if the conditions set forth in the Agreement have not either been fulfilled or waived and hence, the proposed acquisition does not take place. In the opinion of the Directors, Beida Jade Bird is able to repay the earnest money, if so required, and a guarantee for repayment has been obtained from a company controlled by the Peking University.

Should the conditions precedent (including but not limited to approval by the independent shareholders of the Company and all necessary approvals and permissions from the relevant government and/or regulatory authorities) of the Agreement be fulfilled or waived by the Company, the earnest money would be applied and recorded in the consolidated balance sheet of the Group as interest in an associated.

## **MATERIAL ACQUISITION/DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANY AND SIGNIFICANT INVESTMENTS**

During the year, the Group disposed of a 60% held subsidiary, Beijing Silicon Innovation Company Limited, for a cash consideration of RMB3,600,000 and at a gain of RMB1,254,000.

Except for the above, the Group had no material acquisitions and disposals of subsidiaries and affiliated company and investment during the year ended 31 December 2004.

## **COMPETING INTERESTS**

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

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee has three members comprising the three independent non-executive directors of the Company. An audit committee meeting was held in March 2005 to review the Group's 2004 annual report and provide advice and recommendations to the board of directors.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S H SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's H Shares during the year ended 31 December 2004.

## **BOARD PRACTICES AND PROCEDURES**

The Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 December 2004, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rule on Corporate Governance Report which took effect on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

## **APPRECIATION**

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

By order of the Board

**Xu Zhen Dong**

*Chairman*

Beijing, the PRC, 30 March 2005

*As at the date of this announcement, Mr. Xu Zhen Dong, Mr. Xu Zhi Xiang and Mr. Zhang Wan Zhong are executive Directors, Mr. Lo Lin Shing, Simon, Mr. Liu Yong Jin, Mr. Hao Yi Long, Mr. Wu Min Sheng and Mr. Li Li Xin are non-executive Directors and Mr. Wang Chao Yong, Professor Nan Xiang Hao and Professor Chin Man Chung, Ambrose are independent non-executive Directors.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least seven days from its date of publication.*