



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 2006**

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

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

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

RESULTS

The Board of Directors (“Board”) presents the audited consolidated results and financial position of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2006, together with the comparative figures for the year ended 31 December 2005, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	<i>Notes</i>	2006 RMB'000	2005 RMB'000
TURNOVER	3	115,689	143,733
Other income	3	8,146	7,000
Materials and equipment		(90,516)	(119,921)
Staff costs		(18,851)	(18,060)
Depreciation and amortisation expenses		(2,759)	(2,388)
Impairment of goodwill		–	(1,742)
Other operating expenses		(24,997)	(48,085)
LOSS FROM OPERATIONS		(13,288)	(39,463)
Finance costs – interest on bank and other loans		(23,307)	(19,195)
Share of loss of an associate		(1,439)	(816)
(Loss)/gain on disposal of a subsidiary		(444)	2,047
LOSS BEFORE TAX		(38,478)	(57,427)
Income tax expense	4	(982)	(1,781)
LOSS FOR THE YEAR		(39,460)	(59,208)
Attributable to:			
Equity holders of the Company		(39,634)	(59,843)
Minority interests		174	635
		(39,460)	(59,208)
LOSS PER SHARE			
– Basic	5	(3.3) cents	(5.1) cents

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	<i>Notes</i>	2006 RMB'000	2005 RMB'000 <i>(restated)</i>
NON-CURRENT ASSETS			
Property, plant and equipment		24,623	26,859
Prepaid land lease payments		5,780	5,866
Goodwill		6,125	6,125
Other intangible assets		–	40
Investment in an associate		250,336	313,375
Available-for-sale financial assets		394,847	418,535
		681,711	770,800
CURRENT ASSETS			
Inventories		12,670	19,151
Trade receivables	6	15,202	18,630
Due from an associate		61,600	–
Due from a shareholder		94	494
Due from related parties		390	359
Prepayments, deposits and other receivables		50,581	90,806
Non-pledged time deposits with original maturity of more than three months when acquired		139,475	150,663
Cash and cash equivalents		91,144	83,894
		371,156	363,997
TOTAL ASSETS		1,052,867	1,134,797
CURRENT LIABILITIES			
Bank loans		–	234,036
Other loan		220,996	–
Trade payables	7	11,822	12,191
Advances from customers		7,815	5,620
Accruals and other payables		27,369	26,721
Due to a shareholder		612	1,106
Due to related parties		2,305	7,214
Current tax liabilities		9,076	8,094
		279,995	294,982
NET CURRENT ASSETS		91,161	69,015
TOTAL ASSETS LESS CURRENT LIABILITIES		772,872	839,815
NON-CURRENT LIABILITIES			
Bank loans		20,000	20,000
NET ASSETS		752,872	819,815
CAPITAL AND RESERVES			
Share capital		118,480	118,480
Reserves		630,113	697,230
Equity attributable to equity holders of the Company		748,593	815,710
Minority interests		4,279	4,105
TOTAL EQUITY		752,872	819,815

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

Attributable to equity holders of the Company

	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Reserve funds <i>RMB'000</i>	Investment revaluation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Foreign currency translation reserve <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i> (restated)	Total equity <i>RMB'000</i>
At 1 January 2005	118,480	377,720	52,951	323,818	269,247	–	1,142,216	3,470	1,145,686
Changes in fair value of available-for-sale financial assets	–	–	–	(255,107)	–	–	(255,107)	–	(255,107)
Translation differences	–	–	–	–	–	(11,556)	(11,556)	–	(11,556)
Net expense recognised directly in equity	–	–	–	(255,107)	–	(11,556)	(266,663)	–	(266,663)
(Loss)/profit for the year	–	–	–	–	(59,843)	–	(59,843)	635	(59,208)
Total recognised income and expense for the year	–	–	–	(255,107)	(59,843)	(11,556)	(326,506)	635	(325,871)
Transfer to reserve funds	–	–	836	–	(836)	–	–	–	–
At 31 December 2005	<u>118,480</u>	<u>377,720</u>	<u>53,787</u>	<u>68,711</u>	<u>208,568</u>	<u>(11,556)</u>	<u>815,710</u>	<u>4,105</u>	<u>819,815</u>
At 1 January 2006	118,480	377,720	53,787	68,711	208,568	(11,556)	815,710	4,105	819,815
Changes in fair value of available-for-sale financial assets	–	–	–	(15,423)	–	–	(15,423)	–	(15,423)
Translation differences	–	–	–	–	–	(12,060)	(12,060)	–	(12,060)
Net expense recognised directly in equity	–	–	–	(15,423)	–	(12,060)	(27,483)	–	(27,483)
(Loss)/profit for the year	–	–	–	–	(39,634)	–	(39,634)	174	(39,460)
Total recognised income and expense for the year	–	–	–	(15,423)	(39,634)	(12,060)	(67,117)	174	(66,943)
At 31 December 2006	<u>118,480</u>	<u>377,720</u>	<u>53,787</u>	<u>53,288</u>	<u>168,934</u>	<u>(23,616)</u>	<u>748,593</u>	<u>4,279</u>	<u>752,872</u>

Notes:

1. Principal Activities

The Group is principally engaged in the research, development, manufacturing, marketing and sale of embedded systems, including network security products (“NET”), wireless fire alarm systems (“WFAS”), and related products. The Group is also engaged in sale of computer products (“Computer”) and the provision of total solution services through the application of its existing embedded system products.

2. Basis of Presentation

2.1 Adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

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

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

2.2 Basis of preparation

These financial statements have been prepared in accordance with HKFRSs issued by HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosure required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments which are carried at their fair values. These financial statements are presented in Renminbi (“RMB”), which is the same as the functional and presentation currency of the Company, and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Basis of consolidation

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

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

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

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

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

3. Turnover and other income

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

An analysis of turnover and other income is as follows:

	2006 RMB'000	2005 RMB'000
Turnover		
Sale of embedded systems and related products	56,699	47,494
Sale of computer products	58,990	95,045
Rendering of total solution services	—	1,194
	<u>115,689</u>	<u>143,733</u>
Other income		
Interest income	6,630	4,713
Net foreign exchange gains	233	648
Others	1,283	1,639
	<u>8,146</u>	<u>7,000</u>

4. Income tax expense

	2006 RMB'000	2005 RMB'000
Current tax – Mainland China	<u>982</u>	<u>1,781</u>

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2005: RMB Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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

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

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: RMB Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the directors do not have intention to remit such earnings to the Company in the foreseeable future.

5. Loss per share

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

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

6. Trade receivables

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

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

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

7. Trade payables

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

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

DIVIDEND

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

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

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

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

SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into four main business segments:

- the manufacture and sale of NET;
- the manufacture and sale of WFAS;
- the trading of Computer; and
- the properties development.

Secondary reporting format – geographical segments

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

- Mainland China
- Hong Kong

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

Primary reporting format – business segments

	NET RMB'000	WFAS RMB'000	Application specific integrated circuits ("ASIC") RMB'000	2006 Remote automatic metre-reading systems ("RMR") RMB'000	Computer RMB'000	Properties development RMB'000	Total RMB'000
Revenue	<u>12,563</u>	<u>44,136</u>	<u>–</u>	<u>–</u>	<u>58,990</u>	<u>–</u>	<u>115,689</u>
Results							
Segment results	<u>(3,349)</u>	<u>4,248</u>	<u>–</u>	<u>–</u>	<u>37</u>	<u>–</u>	936
Interest income							6,630
Finance costs							(23,307)
Share of loss of an associate	–	–	–	–	–	(1,439)	(1,439)
Loss on disposal of a subsidiary							(444)
Unallocated corporate expenses							<u>(20,854)</u>
Loss before tax							(38,478)
Income tax expenses							<u>(982)</u>
Loss for the year							<u>(39,460)</u>
ASSETS							
Segment assets	59,125	38,804	–	–	13,542	61,600	173,071
Investment in an associate	–	–	–	–	–	250,336	250,336
Less: Intersegment assets							(53,330)
Unallocated corporate assets							<u>682,790</u>
Total assets							<u>1,052,867</u>
LIABILITIES							
Segment liabilities	8,634	60,122	–	–	7,525	–	76,281
Less: Intersegment liabilities							(53,330)
Unallocated corporate liabilities							<u>277,044</u>
Total liabilities							<u>299,995</u>
OTHER SEGMENT INFORMATION							
Capital expenditure	83	410	–	–	7	–	500
Depreciation and amortisation expenses	1,299	1,397	–	–	63	–	2,759
Allowance for doubtful other receivables	9	108	–	–	–	–	117
Allowance for doubtful trade receivables	56	–	–	–	4,002	–	4,058
Allowance for obsolete and slow-moving inventories	–	–	–	–	1,999	–	1,999
Reversal of allowance for doubtful other receivables	(68)	–	–	–	(4,227)	–	(4,295)
Reversal of allowance for doubtful trade receivables	(71)	(997)	–	–	(2,894)	–	(3,962)
Reversal of allowance for obsolete and slow-moving inventories	<u>(928)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(928)</u>

	2005						
	NET	WFAS	ASIC	RMR	Computer	Properties development	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<u>8,415</u>	<u>39,377</u>	<u>557</u>	<u>339</u>	<u>95,045</u>	<u>–</u>	<u>143,733</u>
Results							
Segment results	<u>(13,569)</u>	<u>1,680</u>	<u>120</u>	<u>(36)</u>	<u>(3,759)</u>	<u>–</u>	<u>(15,564)</u>
Interest income							4,713
Finance costs							(19,195)
Share of loss of an associate	–	–	–	–	–	(816)	(816)
Unallocated corporate expenses							<u>(26,565)</u>
Loss before tax							(57,427)
Income tax expenses							<u>(1,781)</u>
Loss for the year							<u>(59,208)</u>
ASSETS							
Segment assets	20,519	54,367	2,493	–	140,909	–	218,289
Investment in an associate	–	–	–	–	–	313,375	313,375
Less: Intersegment assets							(15,405)
Unallocated corporate assets							<u>618,538</u>
Total assets							<u>1,134,797</u>
LIABILITIES							
Segment liabilities	13,540	29,851	1,244	–	35,154	–	79,789
Less: Intersegment liabilities	(2,319)	(2,683)	–	–	(10,403)	–	(15,405)
Unallocated corporate liabilities							<u>250,598</u>
Total liabilities							<u>314,982</u>
OTHER SEGMENT INFORMATION							
Capital expenditure	4,774	13,316	764	–	546	–	19,400
Depreciation and amortisation expenses	1,209	361	115	–	703	–	2,388
Impairment of goodwill	1,742	–	–	–	–	–	1,742
Allowance for doubtful other receivables	5,140	–	–	–	951	–	6,091
Allowance for doubtful receivables	6,250	2,885	370	–	7,306	–	16,811
Reversal of allowance for doubtful trade receivables	(16)	–	–	–	(1,020)	–	(1,036)
Allowance for obsolete and slow-moving inventories	<u>578</u>	<u>–</u>	<u>70</u>	<u>–</u>	<u>354</u>	<u>–</u>	<u>1,002</u>

(b) Secondary reporting format – geographical segments

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

MANAGEMENT DISCUSSION AND ANALYSIS

Performance review

Overall

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

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

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

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

Dongzhimen Project

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

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

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

Awards

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

Quarter	Award
First	Top Ten Comfortable Brand of the National Fire Protection Equipment
Second	The Quality Intelligence Rank Certificate (“Quality AAA level” and “Quality Remarkable Enterprise”)
Third	Nil
Forth	<ul style="list-style-type: none">– Certificate of High Technological Product of Hebei Province — 點型定溫火災探測器、點型感煙火災探測器、火災顯示盤、火災報警控制器（聯動型）、區域火災報警控制器、手動火災報警按鈕– Certificate of High Technological Enterprise of Hebei Province– Certificate of High Creditability Enterprise of Hebei Province

Capital commitment

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

Contingent liabilities

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

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

On 17 November 2005, SDB obtained an order from the People’s High Court of Beijing to freeze the assets of Beijing Donghua Company and Chengjian Donghua for a value equivalent to RMB1,530 million. The assets forming the subject of the order included the Land.

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

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

SMIC securities lending arrangement

On 15 December 2006, the Company entered into a securities lending agreement (“Securities Lending Agreement”) with Nexgen Capital Limited (“NCL”) pursuant to which Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited (“JBU Development”), a wholly-owned subsidiary of the Company, had lent and NCL had borrowed 323,888,000 fully paid ordinary shares of SMIC (the “Loan Shares”). NCL is a wholly-owned subsidiary of Nexgen Financial Holding Limited (the “Nexgen Group”), which is principally engaged in the provision of risk-based financial solutions to corporations, insurance companies, banks and other financial service firms, and high net worth individuals in Europe and Asia. NCL primarily undertakes capital market transactions of the Nexgen Group, which includes the provision

of financial solutions such as equity derivative linked instruments designed for mergers and acquisitions, treasury management, corporate finance, risk transfer and private financing situations. The Loan Shares were mortgaged by JBU Development in favour of Agricultural Bank of China H.O. Banking Department (“Agricultural Bank”). In consideration for JBU Development providing the loan of the Loan Shares to NCL pursuant to the Securities Lending Agreement, NCL agreed to deposit with JBU Development a collateral in the amount of approximately USD28,295,000 (equivalent to approximately RMB221 million) on the 18 December 2006. The collateral had been paid in settlement of a loan of USD29,000,000 (equivalent to approximately RMB226 million) owing by the Company to Agricultural Bank and for the release of the mortgage over the Loan Shares, and the shortfall had been made up by the Company from its internal resources.

Liquidity and financial resources

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

Human resources

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

EXTRACTS OF INDEPENDENT AUDITOR’S REPORT

Report on the Financial Statements

Basis for qualified opinion

- a. As stated in the prior year’s auditors’ report issued by Ernst & Young on 11 May 2006, the evidence made available to them was limited because the information and explanations necessary to enable them to understand and assess the appropriateness of the clarification of 北京燕園金楓國際貿易有限公司, 北京安福房地產開發有限公司 and 北京潤澤匯亨商貿有限責任公司 as unrelated parties were insufficient. Further details are set out in note 24 to the financial statements. Any adjustment to the above might have a consequential effect on the classification and disclosure on the 2005 comparatives and the related notes.
- b. As stated in note 18 to the financial statements, the directors of the Company considered that no goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost should be recognised in the consolidated financial statements for the acquisition of Beijing Chengjian Donghua Real Estate Development Company Limited (“Chengjian Donghua”) for the year ended 31 December 2005. However, we have not been

provided with sufficient evidence to satisfy ourselves that the net fair value of the identifiable assets, liabilities and contingent liabilities of Chengjian Donghua as at the acquisition date is same as the cost of acquisition. There are no other satisfactory audit procedures that we could adopt to determine whether no goodwill or excess of acquirer's interest in the net fair value of acquires' identifiable assets, liabilities and contingent liabilities over cost is fairly stated in the financial statements. Any adjustment to the above might have a consequential effect on the results for the years ended 31 December 2005 and 2006 and net assets as at 31 December 2005 and 2006.

- c. We have not been provided with sufficient evidence to satisfy ourselves about the appropriateness of the classification of New Legend Holdings Limited as unrelated party. Further details are set out in note 24 to the financial statements. There are no other satisfactory audit procedures that we could adopt to understand and assess if the classification of New Legend Holdings Limited as unrelated party is appropriate.
- d. As stated in note 36 to the financial statements, the service fee charged by 中投信用擔保有限公司 has not been accrued by Chengjian Donghua as Chengjian Donghua is currently negotiating with 中投信用擔保有限公司 with a view to reducing the service fee. We have not been provided with sufficient evidence to satisfy ourselves the service fee to be charged by 中投信用擔保有限公司. There are no other satisfactory audit procedures that we could adopt to determine the Group's share of the results of an associate should be adjusted against the amount of the service fee to be charged by 中投信用擔保有限公司. Any adjustment to this amount might have a consequential effect on the results for the year and net assets as at 31 December 2006.

Qualified opinion arising from limitation of audit scope

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

Report on Other Matters

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

MATERIAL UNCERTAINTY RELATING TO LITIGATION AGAINST THE GROUP'S ASSOCIATE

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

EXTRACTS OF NOTE 18 TO THE FINANCIAL STATEMENTS

Investment in an associate

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

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

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

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of equity interests	Principal activities
Chengjian Donghua	The PRC	Registered capital of RMB50,000,000	44%	Properties development

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

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

In 2005, the Company entered into a share transfer agreement (the "Agreement") with Beijing Beida Jade Bird Limited ("Beida Jade Bird"), one of the shareholders of the Company to acquire 44% equity interest in Chengjian Donghua of RMB314.19 million which comprised the acquisition cost of the equity interest amounted to RMB252.59 million and the book value of the shareholder loan of RMB61.6 million. According to the property valuation report issued by Chesterton Petty Limited on 30 June 2005 included in the circular of the Company issued on 30 June 2005 in relation to the "Major and connected transaction relating to the proposed acquisition of 44% equity interest in Chengjian Donghua" (the "Circular"), the

market value of the property interest held by Chengjian Donghua (“Property”) as at 30 April 2005 was RMB3,290,000,000 (details please refer to Appendix IV of the Circular). In addition, according to the accountants’ report of Chengjian Donghua issued by Grant Thornton on 30 June 2005 included in the Circular, the net asset value of Chengjian Donghua as at 31 December 2004 was approximately RMB10,203,000. In preparing the consolidated financial statements of the Company for the years ended 31 December 2005 and 2006, the directors of the Company considered that there was neither goodwill nor excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost should be recognised as the fair value of Chengjian Donghua was same as the acquisition cost of Chengjian Donghua after consideration of the effect on (i) scale down on the current development plan on the Property of Chengjian Donghua; (ii) the delay on the development plan on the Property of Chengjian Donghua; and (iii) Shenzhen Development Bank (“SDB”) intended to take the legal action to sue Chengjian Donghua (details of the legal action between SDB and Chengjian Donghua, please refer to note 36 to the financial statements).

Note:

(a) Consisting mainly of the following:

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

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

(b) Consisting mainly of the following:

	2006 RMB’000	2005 RMB’000
Amount due to Beida Jade Bird	2,141,694	1,614,847 [#]
Amount due to the Company	61,600	61,600
Amount due to Beijing Donghua Company, a fellow subsidiary of the Company	42,448	42,491
Payable to contractors	398,408	70,483

[#] This amount arose, in part, from the repayment of an amount due to Beijing Donghua Company of RMB700 million that Chengjian Donghua received from Beijing Donghua Company in 2003 being the first phase payment made by Beijing Donghua Company to Chengjian Donghua in relation to certain property development business cooperation. The property development business cooperation was cancelled by a cancellation agreement dated 12 December 2004. Further details of the above are set out in note 36 to the financial statements.

Since the property development project of Chengjian Donghua was still in the construction phase in 2006 and Chengjian Donghua has not obtained banking facilities, Chengjian Donghua has to rely on certain of the related parties/fellow subsidiaries of the Company, including Beida Jade Bird, 北京特利投资管理有限公司 and Beijing Donghua Company, to fund its construction and working capital requirements and to settle construction costs on its behalf.

EXTRACTS OF THE NOTE 24 TO THE FINANCIAL STATEMENTS

Prepayment, deposits and other receivables

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

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

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

- (i) According to the loan agreement signed by the Company with 北京千思文化傳播有限公司, an unrelated independent third party, on 19 May 2006, the Company made a loan of RMB14 million to 北京千思文化傳播有限公司. The loan is unsecured, interest-bearing at 6% per annum and with a term from 19 May 2006 to 18 March 2007. Prior to the date of issuing these financial statements, 北京千思文化傳播有限公司 fully repaid the amount of RMB14 million with the interest thereon due to the Company.
- (ii) According to the loan agreement signed by the Company with 北京鈞銘裝飾工程設計有限公司, an unrelated independent third party, on 19 June 2006, the Company made a loan of RMB14 million to 北京鈞銘裝飾工程設計有限公司. The loan is unsecured, interest-bearing at 6% per annum and with a term from 19 June 2006 to 18 March 2007. Prior to the date of issuing these financial statements, 北京鈞銘裝飾工程設計有限公司 fully repaid the amount of RMB14 million with the interest thereon due to the Company.
- (iii) According to the loan agreements signed by the Company with 北京火炬投資管理有限公司, an unrelated independent third party, on 15 May 2006 and 7 June 2006, the Company made loans totalled RMB20.2 million to 北京火炬投資管理有限公司. The loans are unsecured and interest-bearing at 6% per annum and the terms of the loan agreements are from 16 May 2006 to 15 May 2007 and from 7 June 2006 to 6 March 2007 respectively. During the year, the Company has waived all the interest thereon the loans and 北京火炬投資管理有限公司 fully repaid the amount of RMB20.2 million due to the Company.

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

- (i) According to two purchase contracts signed by the Group with Newbase Investments Limited, an unrelated independent third party, in March 2006 and June 2006 for total purchase consideration of

US\$2 million and US\$1 million respectively, the Group was required to make an advance payment of 100% and 100% of the purchase consideration to Newbase Investments Limited amounting to US\$2 million and US\$1 million on 24 March 2006 and 5 June 2006 respectively. These purchase transactions were subsequently terminated by the Group and Newbase Investments Limited. Cash advances amounted to US\$2 million and US\$1 million were settled on 27 March 2006 and 12 June 2006 respectively.

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

During the year ended 31 December 2005, the Company entered into a purchase agreement with each of the three domestic companies: 北京火炬投資管理有限公司, 北京燕園金楓國際貿易有限公司 and 北京潤澤滙亨商貿有限責任公司 for the purchase of computer equipment, details of which are as follows:

- (i) According to the computer purchase agreement signed by the Company with 北京火炬投資管理有限公司, an unrelated independent third party, on 2 April 2005, for a total purchase consideration of RMB16 million, the Company was required to make an advance payment of 50% of the purchase consideration to 北京火炬投資管理有限公司 amounting to RMB8 million on 13 April 2005. This computer purchase transaction was subsequently terminated by the Company and 北京火炬投資管理有限公司. Cash advance totalling RMB16 million were subsequently made to 北京火炬投資管理有限公司 by the Company. In 2006, prior to the date of issuing the financial statements for the year ended 31 December 2005, 北京火炬投資管理有限公司 settled a total amount of RMB9.4 million due to the Company. For the remaining RMB6.6 million, allowance for doubtful debts of RMB3.3 million was made as at 31 December 2005. In 2006, 北京火炬投資管理有限公司 further settled a total amount of RMB6.6 million and the allowance for doubtful debts of RMB3.3 million made at 31 December 2005 was reversed during the year.
- (ii) According to the computer purchase agreement signed by the Company with 北京燕園金楓國際貿易有限公司, an unrelated independent third party, on 2 April 2005, for a total purchase consideration of RMB33 million, the Company made an advance payment of 50% of the purchase consideration to 北京燕園金楓國際貿易有限公司 amounting to RMB16.5 million on 8 April 2005. This computer purchase transaction was subsequently terminated by the Company and 北京燕園金楓國際貿易有限公司. In 2006, 北京燕園金楓國際貿易有限公司 fully settled the amount of RMB16.5 million due to the Company.
- (iii) According to the computer purchase agreement signed by the Company with 北京潤澤滙亨商貿有限責任公司, an unrelated independent third party, on 2 April 2005, for a total purchase consideration of RMB11.2 million, the Company made an advance payment of 50% of the purchase consideration to 北京潤澤滙亨商貿有限責任公司 amounting to RMB5.6 million on 4 April 2005. This computer purchase transaction was subsequently terminated by the Company and 北京潤澤滙亨商貿有限責任公司. In 2006, 北京潤澤滙亨商貿有限責任公司 fully settled RMB5.6 million due to the Company.

In addition, on 21 March 2005, the Company made an advance to 北京安福房地產開發有限公司, an unrelated independent third party, amounting to RMB28 million. During the year ended 31 December 2005, 北京安福房地產開發有限公司 has repaid an amount of RMB7.5 million to the Company. In 2006, 北京安福房地產開發有限公司 fully settled the remaining balance of RMB20.5 million to the Company.

EXTRACTS OF NOTE 36 TO THE FINANCIAL STATEMENTS

Contingent liabilities

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

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

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

On 24 February 2006, upon the application by Chengjian Donghua for discharge of the freeze order and upon the provision of a guarantee by 中投信用擔保有限公司, a limited liability company established in the PRC principally engaged in the provision of guarantees and related advisory services, for the performance of the obligations of Chengjian Donghua, the People’s High Court of Beijing ordered the discharge of the freeze order. The directors of the Company understand that, upon the discharge of the freeze order, the Land is released as a security from the claim by SDB. By another order dated 15 May 2006, the People’s High Court of Beijing, at the direction of the People’s Supreme Court dated 21 March 2006, reinstated the freeze order on the ground that the guarantee provided by 中投信用擔保有限公司 did not satisfy the requirements of the relevant laws and regulations relating to the provision of

guarantee by mid to small size enterprises. The relevant regulations provide that the amount guaranteed by a mid to small size enterprise shall not exceed 10% of the paid up capital of the relevant enterprise providing the guarantee. As the amount guaranteed exceeds the paid up capital of 中投信用擔保有限公司, the People's High court of Beijing ordered the reinstatement of the freeze order dated 17 November 2005. On 21 August 2006, the People's High Court of Beijing, in consideration of a further guarantee provided by 北大資產經營有限公司 (in addition to the guarantee provided by 中投信用擔保有限公司), is of the view that the application by Chengjian Donghua for the discharge of the freeze order now meets the legal requirements. Therefore, the People's High Court of Beijing re-discharge the freeze order. 北大資產經營有限公司 is an asset management company approved by the State Council of the PRC for its establishment. 北大資產經營有限公司 is wholly-owned by the Peking University which is the ultimate controlling shareholder of the three existing promoters of the Company. However, the claim by SDB against Beijing Donghua Company and Chengjian Donghua for repayment of the principal sum of RMB1,500 million lent to Zhongcai Enterprise and Shouchuang Network together with the interest accrued thereon is still pending adjudication by the People's High Court of Beijing.

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

The service fee charged by 中投信用擔保有限公司 in connection with the guarantee provided for discharge of the freeze order issued on 24 February 2006 is RMB7,500,000. As of the date of issuing these financial statements, this service fee has yet to be settled by Chengjian Donghua with 中投信用擔保有限公司 as Chengjian Donghua is currently negotiating with 中投信用擔保有限公司 with a view to reducing the service fee as the discharge of the freeze order issued reinstated on 15 May 2006 and the on 21 August 2006, the freeze order re-discharged upon a further guarantee provided by 北大資產經營有限公司 (in addition to the guarantee provided by 中投信用擔保有限公司). Pursuant to the guarantee agreement entered into between Chengjian Donghua and 中投信用擔保有限公司, except for the service fee of RMB7,500,000 charged by 中投信用擔保有限公司 to Chengjian Donghua in consideration for the provision of guarantee service, there are no other companies, including but not limited to the Company, or individuals providing any form of asset pledge, indemnity, counter guarantee or any other forms of financial support to 中投信用擔保有限公司 in connection with its guarantee provided for the performance of the obligations of Chengjian Donghua as aforesaid.

MATERIAL DISPOSALS OF SUBSIDIARIES

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

During the year ended 31 December 2005, the Group disposed of its entire interest in a 51% owned subsidiary, Beijing Jade Bird Haodi Electric System Company Limited, for a cash consideration of RMB500,000 and at a gain of RMB2 million.

During the year ended 31 December 2005, the Company acquired a 44% interest in Chengjian Donghua for a cash consideration of RMB252.59 million together with a shareholder's loan of RMB61.6 million. Chengjian Donghua is engaged in the development of a parcel of land in the city centre of Beijing into a transportation terminal and residential and commercial complex.

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

The Audit Committee comprises three members, namely, Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose and Mr. Cai Chuan Bing, all are independent non-executive directors. Prof. Nan Xiang Hao is the chairman of the Audit Committee. An Audit Committee was held to review the Group’s annual results for the year ended 31 December 2006 and provide advice and recommendations to the Board of Directors.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules during the year under review.

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

For the year ended 31 December 2006, the Company did not purchase, sell or redeem any of the Company’s H shares.

By order of the Board
Xu Zhen Dong
Chairman

Beijing, the PRC, 23 March 2007

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 and Mr. Li Li Xin are non-executive Directors and Professor Nan Xiang Hao and Professor Chin Man Chung, Ambrose and Mr. Cai Chuan Bing 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.