青鸟环宇
JADE BIRD UNIVERSAL

北京北大青鳥環宇科技股份有限公司
Beijing Beida Jade Bird Universal Sci-Tech Company Limited

(Stock Code 股份代號：8095)

Annual Report 年報 2007

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

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CORPORATE PROFILE

Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("the Company") was incorporated in the People's Republic of China (the "PRC") on 29 March 2000 as a sino-foreign joint stock company with limited liability under the PRC Company Law. The Company was listed on the Growth Enterprise Market ("GEM") on 27 July 2000 and was the first H Share company listed on GEM. (Stock Code: 8095)

The Company is one of the leading software developers and integrated circuit designers in the PRC with expertise in developing software applications and designing integrated circuits for embedded system products.

The Company and its subsidiaries ("the Group") are engaged in the research, development, manufacture, marketing, and sale of embedded system products including, network security products ("NET"), wireless fire alarm systems ("WFAS") and related products. The Group is also engaged in the sales of computer products ("Computer") and the development of travel and leisure business.

FINANCIAL HIGHLIGHTS

RMB'000	**2007**	2006	2005	2004	2003
Turnover	**156,141**	115,689	143,733	130,503	199,740
Other income	**16,327**	8,146	7,000	293,535	1,877
Total cost and operating expenses	**(186,692)**	(137,123)	(190,196)	(180,859)	(185,305)
(Loss)/profit from operations	**(14,224)**	(13,288)	(39,463)	243,179	16,312
Profit/(loss) before tax	**325,071**	(38,478)	(57,427)	234,946	6,907
Income tax expense	**(43,587)**	(982)	(1,781)	(3,280)	(2,399)
Profit/(loss) for the year	**281,484**	(39,460)	(59,208)	231,666	4,508
Earnings/(loss) per share – basic (RMB cents)	**23.8**	(3.3)	(5.1)	20.4	0.7
Dividend per share – (RMB cents)	**2**	N/A	N/A	1	N/A
Total assets	**1,343,975**	1,052,867	1,134,797	1,188,482	995,055
Total liabilities	**323,384**	299,995	314,982	366,614	454,757
Minority interests	**58,126**	4,279	4,105	3,470	6,131
Equity attributable to equity holders of the Company	**962,465**	748,593	815,710	818,398	534,167

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Xu Zhen Dong, Chairman
Mr. Xu Zhi Xiang, President
Mr. Zhang Wan Zhong

NON-EXECUTIVE DIRECTORS
Mr. Liu Yong Jin
Mr. Hao Yi Long
Mr. Lo Lin Shing, Simon *(resigned on 4 April 2007)*
Mr. Li Li Xin *(resigned on 6 March 2008)*

INDEPENDENT NON-EXECUTIVE DIRECTORS
Prof. Nan Xiang Hao
Prof. Chin Man Chung, Ambrose
Mr. Cai Chuan Bing

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

QUALIFIED ACCOUNTANT & COMPANY SECRETARY
Mr. Leung Wai Man, CPA, FCCA

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Hong Kong

CHAIRMAN'S STATEMENT

Looking back to year 2007, it was a year full of challenge. There were a lot of opportunities but also a lot of varieties at the same time. I am pleased that the Group is able to restart its growth engine and obtains a gratifying result.

The two business arms of the Group, being the wireless fire alarm system segment and network security product segment, contribute most to the growth of the Group. We are proud of our leading position in technology in the country, especially wireless fire alarm system. Similar to past years, our quality products have been awarded more that once by various organizations and governmental bodies. Being built up with this strong foundation, we have concentrated on increasing our market share through a lot of ways including setting up more representative offices all over the country during the year 2007. These offices have taken up an important role to promote our quality products outside our foundation markets in Beijing, Hebei and Wuhan. We believe our quality product will earn trust from our customer as well as potential customer. Growth in turnover by 44.8% and 21.6% for wireless fire alarm system segment and network security product segment respectively are solid evidence of what we have achieved during the year 2007. Besides, we have also moved a big step further in developing our core business. In January 2008, we cooperated with Apollo Fire Detectors plc and formed a new joint venture named Apollo Universal Fire Detection Products Ltd. in the PRC. Apollo Fire Detectors plc is a reputable fire detection device manufacturer in Europe having more than 25 years of experience in product development and is also the world largest independent detectors manufacturer. Her parent company Halma plc is a market leader in specialist electronic, safety and environmental technologies itself. It not only gives us a good opportunity to enhance oversea recognition but also allow us upgrade our technology to a higher level through knowledge sharing and technology exchange with our joint venture partner. In March 2008, we have acquired 75% equity interest in 四川久遠智能監控有限責任公司 (Si Chuan Jiu Yuan Intelligent Surveillance Co., Ltd.). She is principally engaged in design, manufacture and sales of fire alarm system, security and fire equipment products. She has its own brand name "久遠" which is well-recognised in Sichuan Province. We believe this investment will allow us to expand our market in the province.

As mentioned in our previous quarterly reports, we are enriching our shareholders' value not only through core business but also through diversification. As I said, this year was full of opportunities. We were presented with a lot of investment proposals. We took a decisive step and chose several of them which the board of directors including I believe they will give values to the Group. In October 2007, we invested in 60% equity interest in 衡陽南嶽瀟湘旅遊發展有限公司 (Hangyang Nanyue Xiaoxiang Tourism Development Limited). She is principally engaged in the exploration and development of travel and leisure business and relating infrastructure construction. In December 2007, we invested in 4.9% equity interest in 張家界旅遊開發股份有限公司 (Zhang Jia Jie Tourism Development Co, Ltd.). The former investment situates at Nanyue Hengshan Mountain, one of the five famous mountains in China while the latter situates at the famous tourist scene Zhang Jia Jie. We believe these 2 investments will be able to generate a stellar performance in the future. Subsequent to the year end, we entered into a limited partnership agreement with SBI Holdings, Inc. and set up a fund on February 2008 with an aggregate commitment in our side of US$50 million for the sake of investment in equity and equity related investments in unlisted companies and business in the PRC as well as real-estates in the PRC. SBI Holdings, Inc. has strong experience in investments in technology related business in Japan, Korea, Hong Kong and in the Asia Pacific region. By integrating our joint venture partner's investment experience with our strength in existing business in PRC, we believe this investment will provide another income stream to us.

CHAIRMAN'S STATEMENT

In May 2007, we disposed of our entire equity interest in 北京城建東華房地產開發有限責任公司 (Beijing Chengjian Donghua Real Estate Development Company Limited) at a consideration of RMB697.2 million. The Group made a huge gain from this 2 year period investment at over RMB380 million. The rate of return is admiring. This encouraging result strengthens our confidence in diversification of business. We will continue to search for profitable investment and seek capital gain for our shareholders.

As at date of this statement, almost a quarter of year 2008 went by. We see that market condition is not steady after a glooming year 2007. Worldwide economy is volatile while the PRC economy is still affected by the macro economic policy. We will continue with our current business strategies but we will be much cautious in expanding our market share as well as selecting investment proposals in order to protect the benefit of our shareholders as a whole.

Last but not least, I would like to take this opportunity to once again give my sincere thanks to our shareholders, staff, bankers, customers and creditors during the past year. The Company will not be doing well without your support.

XU ZHEN DONG
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL

Turnover of the Group rose to approximately RMB156.1 million for the year ended 31 December 2007, representing an improvement of 35.0% over last year. All business segments experienced growth from 21.6% to 44.8% as compared with last year. Gross profit recorded approximately RMB25.5 million, representing an increase of 13.8% over last year. Gross profit margin dropped from 19.4% to 16.4% for the year ended 31 December 2007. It was mainly because of price drop in WFAS market and the strategy of the Group in expansion of market share in this market by using competitive price strategy and offering price incentives. Other income doubled as compared with last year mainly because of interest income from fixed deposits placed in bank during the year.

Overall operating expenses increased from RMB43.9 million to RMB56.1 million for the year ended 31 December 2007. It was mainly because of an impairment loss on available-for-sale financial assets provided during the year. Finance costs rose by 66.8% to approximately RMB38.9 million mainly because full year interest expenses were incurred in connection with the cash collateral, which is classified as other loan, payable to Nexgen Capital Limited ("**NCL**") as well as net exchange loss resulting from weak US dollars throughout the year.

Change in fair value of derivative financial instruments represented fair value adjustment on the share option granted to NCL during the year ended 31 December 2007. The Group's share of loss of an associate, being 北京城建東華房地產開發有限責任公司 (Beijing Chengjian Donghua Real Estate Development Company Limited) ("**CJDH**"), reduced to approximately RMB0.9 million because the Group shared the results of CJDH for a period of approximately 7 months during the year ended 31 December 2007 only. The Group disposed of its entire equity interest in CDJH in early August 2007 at a gain of approximately RMB386.1 million.

As a result, the Group made a profit of approximately RMB281.5 million or 23.8 cents per share for the year ended 31 December 2007, representing a turnaround from loss for last year.

WFAS

WFAS segment contributed to 40.9% of the Group's turnover for the year ended 31 December 2007. The Group emphasized on expansion of market share during the year. As a result of relaxation in credit terms and enhancement in sales promotion, turnover rose by 44.8% as compared with last year despite keen competition. Profit from WFAS segment reduced to approximately RMB0.1 million for the year ended 31 December 2007 despite of growth in turnover. It is mainly the combined result of the allowance made for certain doubtful receivables in an amount of RMB1.5 million and allowance for obsolete and slow-moving inventories in an amount of RMB1.6 million. Should these allowances be considered separately, WFAS segment recorded a profit for the year of approximately RMB3.2 million, representing an decrease of 23.5% over last year. In lieu of management expectation in growing demand in fire alarm products as a whole, the Group expanded through formation and acquisition of joint ventures in the PRC.

NET

NET segment contributed to 9.8% of the Group's turnover for the year ended 31 December 2007. It rose by 21.6% over last year. Segment loss reduced to approximately RMB1.4 million or by 58.9% for the year. Performance of the segment improved mainly because of general increase in demand and the enhancement of the Group's product quality during year 2007.

Computer

Computer segment contributed to 49.3% of the Group's turnover for the year ended 31 December 2007. It rose by 30.5% over last year. Profit from computer segment rose significantly to approximately RMB3.7 million. Performance of the segment improved because customers accelerated their rate of hardware upgrade to keep their pace on evolving technology like the rise in popularity of EMC system.

Tourism development

Tourism development segment is a new business segment of the Group after the Group set up a new subsidiary in the PRC. Loss from the segment came from initial costs incurred for setting up the subsidiary.

Investment in an associate – CJDH

On 21 May 2007, the Company entered into a share transfer agreement with 北京北大青鳥安全系統工程技術有限公司 (Beijing Beida Jade Bird Security System Engineering Technology Company Limited) ("**JBSS**"), a connected person of the Company under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), pursuant to which the Company conditionally agreed to sell 44% of the registered capital of CJDH and the shareholder's loan previously advanced to CJDH by the Company in an amount of RMB61.6 million to JBSS for an aggregate cash consideration of RMB697.2 million. All the conditions were fulfilled and the transaction was completed before year end. The Company had received full amount of the consideration before year end.

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

According to the results announcement published by SMIC on 29 January 2008, SMIC's revenue rose up to US$395.3 million in the fourth quarter of year 2007 ("**4Q07**"), representing an increase of 3.0% over the fourth quarter of year 2006 ("**4Q06**") and an increase of 1.0% over the third quarter of year 2007 ("**3Q07**"). Gross margin recorded 8.9% in 4Q07. It decreased from 10.8% in 3Q07 primarily due to the continual price decline in the DRAM market. Net loss recorded approximately US$21.2 million in 4Q07 which mainly resulted from the DRAM business. In respect of the year ended 31 December 2007, revenue rose by 5.8% to approximately US$1,549.8 million despite the difficult condition in the DRAM market. Gross profit rose by 20% to approximately US$152.7 million as compared with last year owing to the growth in the non-DRAM business. Gross margin was 9.9% for the year ended 31 December 2007 while the figure was 8.7% last year. Net loss reduced from approximately US$44.1 million to approximately US$40.0 million for the year ended 31 December 2007.

Production capacity increased to 185,250 8-inch equivalent wafers per month with a utilization rate of 94%. Wafer shipment and sales increased by 14.6% and 5.8% respectively in the year 2007. SMIC reduced the size of DRAM foundry services in 4Q07 in order to mitigate from the continuing DRAM pricing erosion in the market. On the other hand, non-DRAM business grew as evidenced by increase in revenue from approximately US$988 million to approximately US$1,121 million for the year ended 31 December 2007. Gross profit rose over one fold from last year. In addition, logic sales from 0.13 micron and 90-nanometer technology nodes significantly increased by 42% over last year after the migration to more advanced technology process nodes by logic customers.

PRC sales showed a remarkable 56% growth in year 2007 after the rapid expansion of overall semiconductor market in the region. SMIC captured 77 new customers worldwide in year 2007 while most of them came from the PRC. Customer base thus expanded by 23.3%.

SMIC has entered into a licensing agreement with IBM in which IBM will license its 45-nanometer bulk CMOS technology to SMIC in order to accelerate technology advancement in logic process technology and provide optimal solutions for customers at the 12-inch facilities.

In the coming year 2008, SMIC plans to start a new IC production project in Shenzhen, the PRC. It plans to set up an IC technology research and development center, an 8-inch wafer production line and a 12-inch fab. The 12-inch fab will introduce advanced process technology licensed from IBM pursuant to the licensing agreement.

The Group did not receive any dividend income from in SMIC during the year.

Capital commitment

The Group had a capital commitment on certain property, plant and equipments contracted for purchase but not provided for in an amount of approximately RMB1,170,000 as at 31 December 2007 (2006: RMB Nil).

Save as aforesaid, the Group did not have material capital commitment as at 31 December 2007 (2006: RMB Nil).

Major events during the year

Apart from the disposal of CJDH as mention in the section headed "Investment in an associate – CJDH", the Group carried out 5 more significant transactions during the year ended 31 December 2007.

On 18 May 2007, Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited ("**JB Cayman**"), a wholly owned subsidiary of the Company, entered into a supplemental letter agreement with NCL pursuant to which the parties thereto agreed to certain amendments to the terms of the securities lending agreement entered into last year. The amendments included an extension of the duration of the securities lending transaction for a period of 42 months ending on 18 June 2010, an adjustment to the rate of interest on any cash collateral paid to JB Cayman by NCL to US$ LIBOR three-month plus 4% and an adjustment on the maximum amount of such collateral to approximately US$32.8 million from time to time. The transaction was completed before year end.

On 18 May 2007, JB Cayman and NCL entered into a share options agreement pursuant to which JB Cayman agreed to grant to NCL 161,944,000 call options of the SMIC shares held by JB Cayman on a one to one basis. In return of this grant, NCL had paid an unfront premium of approximately US$0.3 million to JB Cayman. NCL was required to pay a subsequent quarterly premium to JB Cayman in an amount of 2.2% per annum for the period commencing from 18 December 2006 to two Stock Exchange of Hong Kong Limited trading days before 18 June 2010. The grant was completed before year end.

On 22 October 2007, the Company together with JB Cayman entered into a joint venture agreement with 北京中億創一科技發展有限公司 (Beijing Zong Yi Chuang Yi Technological Development Company Limited) ("**ZYCY**") pursuant to which all parties agreed to form a joint venture in the PRC named 衡陽南嶽瀟湘旅遊發展有限公司 (Hengyang Nanyue Xiaoxiang Tourism Development Limited) ("**XX Tourism**"). XX Tourism has a registered capital of RMB200 million in which the Group contributes to 60% equity interest. The principal activities of XX Tourism are exploration and development of travel and leisure business and relating infrastructure construction, in particular, the construction of Hengshan Terminal. Hengshan Terminal will situate at Hengyang City in Hunan Province and comprises a car terminal and tourist information centre. XX Tourism was registered before year end. Half of the registered capital had been contributed by all parities before the year end.

MANAGEMENT DISCUSSION AND ANALYSIS

On 11 December 2007, XX Tourism entered into a share transfer agreement with 湖南省天通商貿有限公司 (Hunan Tian Tong Trading Co., Ltd.) ("**Hunan TT**") and 張家界市經濟發展投資集團有限公司 (Zhang Jie Jie Tourism Development Investment (Group) Co., Ltd.) ("**ZJJ Investment**") pursuant to which Hunan TT agreed to sell its 4.9% equity interests in 張家界旅遊開發股份有限公司 (Zhang Jia Jie Tourism Development Co., Ltd.) to XX Tourism by way of a judicial sale at an aggregate cash consideration of approximately RMB50.3 million. These shares were origninally legally freezed by court after financial dispute between Hunan TT and ZJJ Investment. The shares were legally transferred to XX Toursim by Hunan TT before year end.

On 28 December 2007, JB Cayman entered into an agreement with Jinsheng International Group (Hong Kong) Limited ("**Jinsheng HK**") pursuant to which JB Cayman agreed to provide Jinsheng HK with a US$ senior secured term loan facility in a maximum amount of US$18 million at an annual interest rate of 30% for a period of 4 months ending on 30 April 2008. The facility is secured by a first fixed share charge on 36 issued shares of Jinsheng HK. The facility was fully drawn by Jinsheng HK before year end.

Major events subsequent to year end

The Group carried out 3 significant transactions subsequent to 31 December 2007.

On 23 January 2008, 河北北大青鳥環宇消防設備有限公司 (Hebei Beida Jade Bird Universal Fire Alarm Device Company Limited) ("**Hebei Fire Alarm**") entered into a joint venture agreement with Halma International Limited ("**Halma**") pursuant to which both parties agreed to form a joint venture in the PRC named Apollo Universal Fire Detection Products Ltd. ("**Apollo Universal**"). Apollo Universal has a registered capital of RMB50 million in which Hebei Fire Alarm contributes to 70% equity interest. The principal activities of Apollo Universal are research, development, manufacture, marketing and sale of fire detection, safety and surveillance products. After completion of registered capital contribution and inclusion of Apollo Universal in the List of Fire Fighting Product Manufacturer of China Certification Centre of Fire Products of the Ministry of Public Security of the PRC, Hebei Fire Alarm conditionally agreed to sell 21% equity interest in Apollo Universal to Halma at a consideration of RMB20 million.

On 22 February 2008, JB Cayman entered into a limited partnership agreement with MS Fund Management Holdings, LLP and SBI & BDJB Management Limited pursuant to which all parties agreed to set up an investment fund in the form of exempted limited partnership named SBI & BDJB China Fund, LP. (the "**Fund**"). The size of the Fund is US$100 million in which JB Cayman is required to contribute up to a maximum amount of US$50 million. The commitment period of the Fund is 3 years. The main purpose of the Fund is to seek capital gain by making equity and equity related investments in unlisted companies and businesses operating in the PRC and real-estates in the PRC.

On 7 March 2008, Hebei Fire Alarm entered into a share transfer agreement with 四川久遠投資控股有限公司 (Si Chuan Jiu Yuan Investment Holding (Group) Co., Ltd.) ("**SCJY**") pursuant to which SCJY agreed to sell its 75% equity interests in 四川久遠智能監控有限責任公司 (Si Chuan Jiu Yuan Intelligent Surveillance Co., Ltd.) ("**SCIS**") to Hebei Fire Alarm at a cash consideration of approximately RMB2.4 million. SCIS is principally engaged in design, manufacture and sale of fire alarm system, security and fire equipment products and relating installation and consultation service.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

Net asset value of the Group increased up by 35.6% to RMB1,020.6 million or RMB0.86 per share as compared with last year. It was mainly the result of increase in cash and cash equivalent after cash consideration received from the disposal of CJDH during the year. The Group had cash and cash equivalents of approximately RMB654.1 million as at year end which represented an increase of over 6 times as compared with last year. Current ratio, being the ratio of current assets to current liabilities, improved significantly from approximately 1.3 to approximately 6.7 for the year ended 31 December 2007. As mentioned in the section "Major events during the year", the duration of other loan regarding cash collateral received from NCL was extended. Corresponding amount of RMB177.7 million (2006: RMB221.0 million) was reclassified from current to non-current liabilities as at 31 December 2007. Gearing ratio, being the ratio of total interest bearing debts to total equity, reduced from approximately 32.0% to approximately 18.4% as at 31 December 2007. It was mainly a combined result of partial repayment of bank loans and cash collateral during the year and increase in profit for the year.

Human resources

The Group employed a total of approximately 360 staff as at 31 December 2007. Over 40% of them possessed bachelor degree or above and 3 of them are doctorates. The Group always keeps track of market development and offers competitive remuneration package to the staff including medical coverage and traveling insurance. The Group strictly follows the requirements both in Hong Kong and the PRC regarding provident fund. Employer contributions to the fund were made timely.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Zhen Dong, aged 44, is an executive Director and the Chairman of the board of Directors of the Company. Mr. Xu is responsible for the Company's overall strategic planning, corporate formulation and financial strategies. Mr. Xu graduated from the Computer Science and Technology Department of Peking University in 1987. Mr. Xu is the chairman of the board of Beijing Beida Jade Bird Limited and Beijing Beida Culture Development Company Limited.

Mr. Xu Zhi Xiang, aged 44, is an executive Director and the president of the Company. He is responsible for the overall business development of the Company. Mr. Xu graduated from Peking University with a bachelor degree in computer science and technology specialising in software and subsequently obtained a master degree in software engineering and computer science from Institute of Software, Chinese Academy of Sciences. Mr. Xu is also the president of Beida Jade Bird Group, the chairman of the board of Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited, Beijing Beida Jade Bird BIS Company Limited and Beijing Jade Bird Information Technology Education Development Company Limited, vice chairman of the board of Beijing Aptech Beida Jade Bird Information System Company Limited and vice chairman of Weifang Beida Jade Bird Huaquang Technology Company Limited.

Mr. Zhang Wan Zhong, aged 45, is an executive Director and vice president of the Company. He is primarily responsible for the overall administration, compliance matters and public relations of the Company. Mr. Zhang graduated from Peking University with a master degree in science. Mr. Zhang held various positions in the administrative arm of Peking University including the professor of the Remote Sensing and Geographic Information System Department of Peking University which was responsible for the State's focal science and technology project relating to key problem solving. He is also the vice president of Beijing Beida Jade Bird Limited, the director and general manager of Beijing Beida Jade Bird Education Management Company Limited and the president of Beijing Beida Education Investment Company Limited.

NON-EXECUTIVE DIRECTORS

Mr. Liu Yong Jin, aged 60, is a non-executive Director of the Company. Mr. Liu graduated from the School of Mathematical Sciences of Peking University with a major in computing mathematics. He is currently a researcher and senior engineer of Peking University. Mr. Liu has participated in certain national key scientific and technological projects and has been awarded the second prize in advancement of technology of Peking University and the special prize in science of the former State Ministry of Electronics Industry. Mr. Liu is the vice president of Beijing Beida Jade Bird Limited and is responsible for human resources, administration and management.

Mr. Hao Yi Long, aged 44, is a non-executive Director of the Company. Mr. Hao graduated from the Department of Microelectronics of Peking University with a doctor degree. Mr. Hao is currently working with Peking University. Mr. Hao is the chairman of the board of Beijing Beida Yu Huan Microelectronics System Engineering Company Limited, the director of Department of Microelectronics of Peking University and the vice president of Chinese Society of Micro/Nano Technology. Mr. Hao has published over eighty theses and acquired four State patents. Mr. Hao's research projects include the design methodology, modeling, database and simulation in Micro Electronical Mechanical System ("MEMS"), MEMS processes development, micro accelerometer and integrated circuits processes development.

Mr. Li Li Xin, aged 46, was a non-executive Director of the Company. Mr. Li graduated from the Faculty of Economics and Management of Tsinghua University with a master degree. Mr. Li has engaged in specialised investment, establishment, operation and management of enterprises for over eleven years and has extensive experience in product development, technology development, market exploration, capital management and resources integration. Mr. Li joined Beijing Beida Jade Bird Limited as a vice president in year 2001 and was also a director and the general manager of Macat Optics and Electronic Company Limited. Mr. Li resigned as a non-executive director on 6 March 2008.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Nan Xiang Hao, aged 72, is an independent non-executive Director and a member of the audit committee of the Company. Prof. Nan is currently a part-time professor in the Graduate University of Chinese Academy of Science. He was previously a consultant of The Fourth Information Cryptology Commissary of the Chinese Computer Association. Prof. Nan has been awarded various science awards such as the Second Prize of State Technological Achievement.

Prof. Chin Man Chung, Ambrose, aged 42, is an independent non-executive Director and a member of the audit committee of the Company. Prof. Chin graduated from the Department of Oriental Languages and Cultures of Peking University with a master degree in Literature. Prof. Chin is currently a professor of the History Department of Fudan University and a researcher of morality and religion research centre of Tsinghua University. Prof. Chin has published of thesis "Ya Fu Ji" and received the First Prize of "Ji Xianlin" Oriental Literature Prize.

Mr. Cai Chun Bing, aged 68, is an independent non-executive Director and a member of the audit committee of the Company. Mr. Cai graduated from Anhui University of Finance and Trade. Mr. Cai was division chief, deputy director and director of the Audit Committee of the Financial Department of the Ministry of Communications. Mr. Cai is currently the chairman of the Communications Branch of China Institute of Internal Audit. Mr. Cai is also a non-executive director of Yue Da Holdings Limited (stock code: 629) whose shares are listed on the Stock Exchange of Hong Kong Limited .

CHIEF SCIENTIST

Prof. Wang Yang Yuan, aged 73, is appointed as the Chief Scientist of the Company in May 2000. Prof. Wang is responsible for the Company's overall technology research and development and monitoring the investment in SMIC.

SUPERVISORS

Mr. Zhang Yong Li, aged 43, is chairman of the Company's supervisory committee. Mr. Zhang graduated from the Geology Department of Peking University with a bachelor degree in science and subsequently obtained a doctorate degree in engineering from China University of Geosciences. He is mainly responsible for administration and finance of Beijing Beida Jade Bird Limited. He has been appointed as deputy general manager and chief financial officer of Beijing Beida Jade Bird Limited since November 1998.

Mr. Du Hong, aged 55, is an independent supervisor of the Company. Mr. Du is currently the president of Institute of National Security Technology, the supervisor of Information System Security Testing and Evaluation Center of State Secrecy Administration, vice supervisor and secretary of Information Security Committee of China Computer Federation and vice supervisor of the Information Security Committee of Chinese Information Association. Mr. Du is a researcher and a tutor for candidates of doctor's degree. He has participated in the research and development of information security and secrecy over years. He has awarded one Second Prize of State Technological Achievement and ten Province Level Technological Achievements.

SUPERVISORS (Continued)

Ms. Lu Qing, aged 43, is an independent supervisor of the Company. Ms. Lu graduated from Peking University with a bachelor degree in economics and subsequently obtained a master degree in economics and politics. Ms. Lu obtained a master degree in business administration from HEC School of Management, Paris, France in 1996. Ms. Lu has extensive experience in investment consulting.

Mr. Li De Yong, aged 44, is an independent supervisor of the Company. Mr. Li holds a master's degree in law from the Peking University. Mr. Li had worked in China National Heavy Machine Corp. and qualified as a senior engineer. He had participated in various environmental protection projects and obtained extensive experience. He subsequently worked in the mechanical industrial human resource section of personnel department of Peking University and obtained extensive experience in human resources and management. Mr. Li joined Beijing Beida Jade Bird Limited as assistant to President in year 2003.

Ms. Dong Xiao Qing, aged 39, is an independent supervisor of the Company. Ms. Dong joined Beijing Beida Jade Bird Limited in March 1997 and was responsible for human resources management. She was appointed as the head of the human resources department of the Company in June 2000. Ms. Dong has over eleven years of experience in human resources in IT industry. She is familiar with the State Labour Law and has practical experience in human resources.

SENIOR MANAGEMENT

Mr. Cai Wei Min, aged 41, is the general manager of Hebei Beida Jade Bird Universal Fire Alarm Device Co., Ltd. ("Hebei Fire Alarm"), a subsidiary of the Company. Mr. Cai graduated with a bachelor degree in Physics from Peking University in 1990. Mr. Cai had worked in Beijing Sida Technology Development Centre, Chinese Academy of Social Sciences Market and Investment Committee. He was the general manager of Beijng Zhenghe Decoration Company. He possessed with extensive experience in technology and marketing. He joined Hebei Fire Alarm as general manager since June 2001.

Mr. Li Zhi Qin, aged 35, is the general manager of Wuhan Beida Jade Bird Netsoft Co., Ltd. ("**Wuhan Netsoft**"), a subsidiary of the Company. Mr. Li graduated from School of Computer Science of Beijing University of Aeronautics & Astronautics in 1995. Mr. Li was the manager of the IBM Department of Meihe Group and northern regional manager of 康柏實達電子商務技術有限公司. He was a deputy manager of Wuhan Netsoft since January 2005 and was promoted as general manager in July 2007.

Mr. Leung Wai Man, aged 37, is the financial controller and the company secretary of the Company. He has over 15 years of experience in auditing, accounting, taxation and financial management in Hong Kong and the PRC. He holds a bachelor of Business Administration degree from the Chinese University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants. He is also an Associate Member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FRAMEWORK

The Company developed a set of documents to govern corporate practice of the Company with reference to the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**").

These documents form the corporate governance framework of the Company. They are listed out as follows:

1. Code on the Corporate Governance;
2. Code of Conduct for Securities Transactions by Directors of the Company ("**Securities Code**");
3. Duties of the Board of Directors;
4. Segregation of Duties between the Chairman and the President;
5. Disciplinary Rules of the Company;
6. Term of Reference on the Audit Committee;
7. Term of Reference on the Remuneration Committee; and
8. Written guidelines for relevant employees in respect of their dealings in the securities of the Company.

The Company has complied with all the code provisions of the CG Code for the year ended 31 December 2007.

THE BOARD OF DIRECTORS

The Board of Directors (the "**Board**") is currently under its third session. The Board comprises of three executive directors, three non-executive directors and three independent non-executive directors as at year end. Composition of the Board and profile of the Directors are set out on pages 13 to 15 of this annual report.

All Directors served for the whole year of 2007 except Mr. Lo Lin Shing, Simon who resigned on 4 April 2007 due to his personal reasons. Subsequent to year end, Mr. Li Li Xin resigned as a non-executive director on 6 March 2008 after his assessment of insufficient time in serving the Company.

The Company has complied with GEM Listing Rules regarding the minimum number of independent non-executive directors and accounting expertise. The Company has received annual confirmation in respect of independence from each of the independent non-executive director for the year ended 31 December 2007.

The Company has adopted a Securities Code on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries, all the Directors have confirmed that they have complied with Securities Code for Securities Transactions by Directors of the Company throughout the year ended 31 December 2007.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Securities Code. No incident of non-compliance was noted by the Company throughout the year ended 31 December 2007.

THE BOARD OF DIRECTORS (Continued)

Board Meetings

Seven Board meetings were held during the year ended 31 December 2007. The following table sets out the attendance of each Director on these meetings:

	Note	**Personal attendance/ Number of meetings**
Executive directors		
Mr. Xu Zhen Dong, Chairman	*(a)*	5/7
Mr. Xu Zhi Xiang, President	*(b)*	5/7
Mr. Zhang Wan Zhong	*(c)*	5/7
Non-executive directors		
Mr. Liu Yong Jin	*(d)*	5/7
Mr. Hao Yi Long		7/7
Mr. Lo Lin Shing, Simon *(resigned on 4 April 2007)*	*(e)*	0/7
Mr. Li Li Xin *(resigned on 6 March 2008)*		0/7
Independent non-executive directors		
Prof. Nan Xiang Hao		7/7
Prof. Chin Man Chung, Ambrose	*(f)*	0/7
Mr. Cai Chuan Bing		7/7

Notes:

(a) Mr. Xu Zhen Dong appointed his proxy to attend the remaining 2 meetings.

(b) Mr. Xu Zhi Xiang appointed his proxy to attend the remaining 2 meetings.

(c) Mr. Zhang Wan Zhong attended the remaining 2 meetings by phone.

(d) Mr. Liu Yong Jin appointed his proxy to attend 1 meeting.

(e) Mr. Lo Lin Shing, Simon appointed his proxy to attend 1 meeting.

(f) Prof. Chin Man Chung, Ambrose attended 1 meeting by phone and appointed his proxy to attend 5 meetings.

The Board has set up audit committee ("**Audit Committee**") and remuneration committee ("**Remuneration Committee**"). Both have terms of reference which accord with the principles set out in the CG Code. More details of these two sub-committees are set out in separate sections in this report.

THE BOARD OF DIRECTORS (Continued)

Operation of the Board

The Board is responsible to the shareholders of the Company. It is accountable for the operation, strategy, finance and compliance of the Group.

The Board has not established a nomination committee. The appointment of new director is therefore a matter for consideration and decision by the shareholders' meeting. The shareholder(s) considers the nominated director's expertise in relevant area and whether he/she can contribute to the Company and has sufficient time to participate in the decision making process of the Company. Directors are elected for a period of 3 years in general. Expect for Mr. Cai Chuan Bing whose contract commencement date was 20 October 2006, the Directors (including non-executive directors) of the Company have all been appointed for a term of three years to the date of the 2008 annual general meeting to be convened in 2009, and are eligible for re-election according to the Company's Articles of Association.

Matters that need to be determined or considered by the Board include overall group strategies, substantial acquisitions, group results, recommendations on the appointment or re-election of directors, distribution of dividends and other substantial operating and financial matters. General daily and routine operating decision-makings are handled by the management.

Before each board meeting the Directors are provided with a detailed agenda, sufficient relevant information and a notice period of at least 15 days. All Directors are entitled to include matters of their concern in the agenda. If the material interest of any director or his associate is involved in any resolution of the board meeting, such director must give up his/her voting right and his/her vote will not be counted in the quorum of the meeting.

All Directors are free to access to all the corporate information for the purpose of discharging their duties and responsibilities as directors. The directors may seek independent professional advice if necessary at the Company's expenses. All directors have unrestricted access to the senior management of the Company.

Chairman and President

The posts of Chairman and President were held by different persons. Mr. Xu Zhen Dong is the Chairman of the Board while Mr. Xu Zhi Xiang is the President.

AUDIT COMMITTEE

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

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

Audit Committee comprises three members, namely, Prof. Nan Xiang Hao, Prof. Chin Man Chung, Ambrose and Mr. Cai Chuan Bing. All are independent non-executive directors. Mr Prof. Nan Xiang Hao is the chairman of the Audit Committee. Mr. Cai Chuan Bing has the appropriate financial and accounting experience required by the GEM Listing Rules.

During the year, the Audit Committee held two meetings. The following tables set out the attendance of each committee member on these meetings.

Committee members	*Note*	**Personal attendance/ No. of meetings**
Prof. Nan Xiang Hao		2/2
Prof. Chin Man Chung, Ambrose	*(a)*	0/2
Mr. Cai Chuan Bing		2/2

Note:

(a) Prof. Chin Man Chung, Ambrose attended the 2 meetings by phone.

REMUNERATION COMMITTEE

Remuneration Committee of the Company is mainly responsible for making recommendations to the Board in respect of the remuneration policy and structure of all directors' and senior management. It reviews the existing remuneration policy annually and recommends to the Board about the remuneration policy and structure.

As at 31 December 2007, the Remuneration Committee comprises three members. The chairman of the Remuneration Committee is Mr. Xu Zhi Xiang and the other two members are Prof. Nan Xiang Hao and Mr. Cai Chuan Bing. Mr. Cai Chuan Bing was appointed as committee member on 20 October 2006.

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

The Remuneration Committee held two meetings during the year ended 31 December 2007. The following table set out the attendance of each committee member on these meetings:

Committee members	**Personal attendance/ No. of meetings**
Mr. Xu Zhi Xiang	2/2
Prof. Nan Xiang Hao	2/2
Mr. Cai Chuan Bing	2/2

CORPORATE GOVERNANCE REPORT

SUPERVISORY COMMITTEE

The supervisory committee of the Company (the "Supervisory Committee") comprises five members, namely Mr. Zhang Yong Li, Mr. Du Hong, Ms. Lu Qing, Mr. Li De Yong and Ms. Dong Xiao Qing. Mr. Zhang Yong Li is the chairman. The main duties of the supervisors are supervision of legal and regulatory compliance relating to financial matters and oversight of the integrity of Directors and senior management of the Company during their offices. The Supervisory Committee was established in compliance with the company law of the PRC.

Two supervisory meetings were held during the year ended 31 December 2007. The following table sets out the attendance of each Director on these meetings:

Committee members	Personal attendance/ No. of meetings
Mr. Zhang Yong Li	2/2
Mr. Du Hong	2/2
Ms. Liu Qing	1/2
Mr. Li De Yong	2/2
Ms. Dong Xiao Qing	2/2

REMUNERATION OF THE AUDITOR

For the year ended 31 December 2007, the Audit Committee of the Company had reviewed the performance of Messrs. RSM Nelson Wheeler ("**RSM**") as the external auditor of the Company and proposed to re-appoint RSM as the external auditor. The Company agreed with RSM auditor's remuneration of RMB930,000 for the year ended 31 December 2007. RSM was also appointed to provide review service to the Company regarding statement of indebtedness and working capital sufficiency statement of certain notifiable transactions of the Company carried out during the year. The Company agreed with RSM professional service fee in an aggregate amount of RMB450,000 for these services.

RESPONSIBILITY FOR PREPARATION OF THE ACCOUNTS

The Directors acknowledge their responsibility for preparing the accounts of the Company. As at 31 December 2007, the Directors were not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as an on-going concern. The Directors have prepared the financial statements of the Company on a going concern basis. The responsibility of the auditor with respect to financial reporting is set out in the Independent Auditor's Report in this annual report.

INTERNAL CONTROL

For the year ended 31 December 2007, the Company had reviewed its internal control system to ensure its effectiveness and adequacy, which embraced financial, operational and risk management control.

REPORT OF THE DIRECTORS

The directors is pleased present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group is the research, development, manufacture, marketing and sale of embedded systems products, including network security products, wireless fire alarm systems and related products. The Group is also engaged in the sale of computer products and the development of travel and leisure business.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 is set out in the financial statements on page 34 of this Annual Report. The state of affairs of the Group and the Company at that date are set out in the financial statements on pages 35 to 36 of this Annual Report and note 36 to the financial statements respectively.

The directors recommend the payment of a final dividend of RMB 2 cents per ordinary share (2006: RMB Nil) for the year.

No interim dividend was declared in 2007 (2006: RMB Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years and reclassified as appropriate, is set out on page 4. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital of the Company are set out in note 35 to the financial statements.

For the year ended 31 December 2007, no share options were granted under the employee share option scheme (2006: Nil). Details of the Company's share option scheme are set out in note 38 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 31 to the financial statements.

REPORT OF THE DIRECTORS

DISPOSAL OF A SUBSIDIARY

The Group had no material disposal of subsidiaries during the years ended 31 December 2007 and 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, in accordance with the PRC Company Law, an amount of approximately RMB377.7 million standing to the credit of the Company's capital reserve account, and an amount of approximately RMB76.8 million standing to the credit of the Company's statutory reserve funds (details of which are set forth in note 37(c) to the financial statements), as determined under the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had, as detailed in note 37(d) to the financial statements, retained profits of approximately RMB134.5 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2007, sales to the Group's five largest customers accounted for 37.0% (2006: 34.6%) of the total sales for the year while the largest customer accounted for 21.1% (2006: 14.1%) of the total sales for the year. Purchases from the Group's five largest suppliers also accounted for 58.2% (2006: 62.8%) of the total purchases for the year while the largest supplier accounted for 24.0% (2006: 44.6%) of the total purchases for the year.

The Group has sold certain products and provided certain services to certain companies with the same ultimate controlling shareholder of the Company, details of which are set out in note 42 to the financial statements. Save as aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and supplies.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The directors of the Company during the year were:

Executive directors:

Mr. Xu Zhen Dong
Mr. Xu Zhi Xiang
Mr. Zhang Wan Zhong

Non-executive directors:

Mr. Liu Yong Jin
Mr. Hao Yi Long
Mr. Lo Lin Shing, Simon *(resigned on 4 April 2007)*
Mr. Li Li Xin *(resigned on 6 March 2008)*

Independent non-executive directors:

Prof. Nan Xiang Hao
Prof. Chin Man Chung, Ambrose
Mr. Cai Chuan Bing

Supervisors:

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

Save as disclosed above, none of the Directors has any existing or proposed service contracts with the Company as at 31 December 2007, excluding contracts expiring or determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profile of the directors and supervisors of the Company, and the senior management of the Group are set out on pages 13 to 15 of this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No director and supervisor had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests (including interests in shares and short positions) of the Directors, supervisors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which will be required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to section 352 of the SFO to be entered in the register referred to in that section or Rules 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "**GEM Listing Rules**") relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

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

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Note:

(a) The above directors and supervisors of the Company are taken to be interested in the issued share capital of the Company through their respective interests as beneficiaries, among other beneficiaries, of Heng Huat Trust. By a declaration of trust ("Heng Huat Trust") made as a deed on 19 July 2000, Mr. Xu Zhen Dong, Mr. Zhang Wan Zhong and Ms. Liu Yue (who has been replaced by Mr. Xu Zhi Xiang since 9 May 2003 as a trustee) declared that they held the shares of Heng Huat Investments Limited ("Heng Huat") as trustees for the benefits of 477 employees of 北京北大青鳥軟件系統有限公司 (Beijing Beida Jade Bird Software System Co., Ltd.), 北京北大青鳥有限公司 (Beijing Beida Jade Bird Limited), 北京北大宇環微電子系統有限公司 (Beijing Beida Yu Huan Microelectronics System Engineering Co., Ltd.) and 北京天橋北大青鳥科技股份有限公司 (Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited) and their respective subsidiaries and associated companies and the Company. Heng Huat is beneficially interested in the entired issued share capital of Dynamic Win Assets Limited ("Dynamic Win"), and is taken to be interested in 205,414,000 shares of the Company which Dynamic Win is interested. Mr. Xu Zhen Dong, Mr. Zhang Wan Zhong and Mr. Xu Zhi Xiang (who replaced Ms. Liu Yue as a trustee on 9 May 2003 upon Ms. Liu's resignation as a trustee on the same date) are trustees holding 60, 20 and 20 shares out of 100 shares in the issued share capital of Heng Huat.

Save as disclosed above, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the employee share option scheme disclosures below and in note 38 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director and supervisor or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and supervisors to acquire such rights in any other body corporate. As at 31 December 2007, none of the Directors or the supervisors had any rights to acquire H Shares in the Company.

EMPLOYEE SHARE OPTION SCHEME

The Company conditionally approved a share option scheme on 5 July 2000, pursuant to which the Board may, at its discretion, grant share option to any full-time employees of the Group to subscribe for shares in the Company, subject to a maximum of 30% of the Company's shares in issue at the date of grant. However, employees who are PRC nationals shall not be entitled to exercise the option until the current restrictions on PRC nationals from subscribing for or dealing in H Shares imposed by the relevant PRC law and regulations have been abolished or removed. No options have been granted by the Company to any employees of the Group since the date of establishment of the share option scheme.

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

At 31 December 2007, the following interests and short positions of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name		*Notes*	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's domestic issued share capital	Approximate percentage of the Company's issued H Shares	Approximate percentage of the Company's issued share capital
1.	Peking University	*(a)*	Through a controlled corporation	310,000,000	44.28%	Not applicable	26.16%
2.	Beijing Beida Yu Huan Microelectronics System Engineering Co., Ltd. (formerly known as Beijing Beida Yu Huan Microelectronics System Engineering Company)	*(a)*	Directly beneficially owned	85,000,000	12.14%	Not applicable	7.17%
3.	Beijing Beida Jade Bird Software System Co., Ltd. (formerly known as Beijing Beida Jade Bird Software System Company)	*(a)*	Directly beneficially owned	110,000,000	15.71%	Not applicable	9.28%
4.	Beijing Beida Jade Bird Limited	*(a)*	Directly beneficially owned	115,000,000	16.43%	Not applicable	9.71%
5.	Heng Huat Investments Limited	*(b)*	Through a controlled corporation	205,414,000	29.34%	Not applicable	17.34%
6.	Dynamic Win Assets Limited	*(b)*	Directly beneficially owned	205,414,000	29.34%	Not applicable	17.34%
7	Mongolia Energy Corporation Limited	*(c)*	Interest of controlled corporation	84,586,000	12.08%	Not applicable	7.14%
8.	New View Venture Limited	*(c)*	Directly beneficially owned	84,586,000	12.08%	Not applicable	7.14%
9.	Asian Technology Investment Company Limited		Directly beneficially owned	50,000,000	7.14%	Not applicable	4.22%
10.	Tai Fook Securities Company Limited	*(d)*	Directly beneficially owned	80,800,000	Not applicable	16.67%	6.82%
11.	Tai Fook Finance Company Limited	*(d)*	Through a controlled corporation	80,800,000	Not applicable	16.67%	6.82%
12.	Tai Fook (BVI) Limited	*(d)*	Through a controlled corporation	80,800,000	Not applicable	16.67%	6.82%

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

Notes:

(a) Peking University is taken to be interested in 26.16% of the total issued share capital of the Company through the following companies:

(i) 85,000,000 shares (representing approximately 7.17% of the Company's total issued share capital) held by 北京北大宇環微電子系統有限公司 (Beijing Beida Yu Huan Microelectronics System Co., Ltd.) ("Yu Huan") (formerly known as 北京市北大宇環微電子系統工程公司), which is beneficially wholly-owned by Peking University;

(ii) 110,000,000 shares (representing approximately 9.28% of the Company's total issued share capital) held by 北京北大青鳥軟件系統有限公司 (Beijing Beida Jade Bird Software System Co., Ltd.) ("JB Software") (formerly known as 北京市北大青鳥軟件系統公司), which is beneficially wholly-owned by Peking University; and

(iii) 115,000,000 shares (representing approximately 9.71% of the Company's total issued share capital) held by 北京北大青鳥有限責任公司 (Beijing Beida Jade Bird Limited) ("Beida Jade Bird"), which is approximately 46% owned by Peking University.

On 21 January 2008, the Company had been notified by Yu Huan and JB Software that both companies had been entered into share transfer agreements with 杭州北大青鳥科技有限公司 (Hang Zhou Beida Jade Bird Sci-Tech Co., Ltd. ("HZ Jade Bird"), a non wholly-owned subsidiary of Beida Jade Bird which is 80% beneficially owned by it, respectively on 18 January 2008 whereas both companies agreed to sell to HZ Jade Bird their entire equity interests in the Company (collectively the "Transfers"). The Transfers are conditional upon approvals by the board of directors of both companies and 國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council). The Transfers are not effective as at the Latest Practicable Date.

(b) The shares of the Company are held by Dynamic Win Assets Limited, which is beneficially wholly-owned by Heng Huat.

(c) The shares of the Company are held by New View Venture Limited, which is wholly-owned by Mongolia Energy Corporation Limited.

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

Save as disclosed above, no person, other than the Directors and supervisors of the Company, whose interests are set out in the section "Directors', supervisors and chief Executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

COMPETING INTERESTS

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

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

On 15 May 2007, 河北北大青鳥環宇消防設備有限公司 (Hebei Beida Jade Bird Universal Firm Alarm Device Company Limited) ("**Hebei Fire Alarm**") entered into a supply agreement with 上海北大青鳥消防設備銷售有限公司 (Shanghai Beida Jade Bird Fire Equipment Marketing Company Limited) ("**Shanghai Jade Bird Fire**") pursuant to which Hebei Fire Alarm agreed to supply fire alarm system products to Shanghai Jade Bird Fire for a period of 28 months being ended on 31 December 2005 and a renewed period of 3 years ending 31 December 2008. Annual cap of the transaction is in an estimated aggregate amount of approximately RMB6.6 million. Beida Jade Bird is one of the promoters of the Company. Shanghai Jade Bird Fire is a non-wholly-owned subsidiary indirectly owned by Beida Jade Bird and is considered to be an associate of Beida Jade Bird under the GEM Listing Rules. Hebei Fire Alarm is a non-wholly-owned subsidiary of the Company. As a result, Shanghai Jade Bird Fire is considered to be a connected person of the Company under the GEM Listing Rules.

On 15 May 2007, 武漢北大青鳥網軟有限公司 (Wuhan Beida Jade Bird Netsoft Company Limited) ("**Wuhan Netsoft**") entered into a supply agreement with 北京青鳥信息系統有限公司 (Beijing Jade Bird Information System Company Limited) ("**Beijing Jade Bird IS**") pursuant to which Wuhan Netsoft agreed to supply network management products and firewall products to Beijing Jade Bird IS for a period 3 years ending 31 December 2008. Annual cap of the transaction is in an estimated aggregate amount of approximately RMB2.8 million. Beijing Jade Bird IS is a non-wholly-owned subsidiary indirectly owned by 北京天橋北大青鳥科技股份有限公司 (Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited) ("**Beijing Tianqiao**"). Beida Jade Bird controls the composition of the majority of the board of directors of Beijing Tianqiao. Beijing Jade Bird IS is therefore considered to be an associate of the Company under the GEM Listing Rules.

Both transactions are in the ordinary and usual course of the Group's business.

The independent non-executive directors had reviewed the continuing transactions regarding supply of embedded system products to Shanghai Jade Bird Fire and Beijing Jade Bird IS during the year ended 31 December 2007 and confirmed that the transactions have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

On 21 May 2007, the Company entered into a share transfer agreement with 北京北大青鳥安全系統工程技術有限公司 (Beijing Beida Jade Bird Security System Engineering Technology Company Limited) ("**JBSS**"), a connected person of the Company under the GEM Listing Rules, pursuant to which the Company conditionally agreed to sell 44% of the registered capital of CJDH and the shareholder's loan previously advanced to CJDH by the Company in an amount of RMB61.6 million to JBSS for an aggregate cash consideration of RMB697.2 million. All the conditions were fulfilled and the transaction was completed before year end. The Company had received full amount of the consideration before year end.

The Company had announced the above transactions in accordance with the requirements of the GEM Listing Rules during the year ended 31 December 2007.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events after 31 December 2007 are set out in note 43 to the financial statements.

REPORT OF THE DIRECTORS

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 Group 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 of them are independent non-executive Directors. Prof. Nan Xiang Hao is the chairman of the Audit Committee. An Audit Committee had held a meeting and reviewed the Group's annual results for the year ended 31 December 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDITOR

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

RSM Nelson Wheeler retire and a resolution for the reappointment of RSM Nelson Wheeler as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD OF DIRECTORS
XU ZHEN DONG
Chairman

Beijing, the People's Republic of China
25 March 2008

REPORT OF THE SUPERVISORY COMMITTEE

To the Shareholders:

For the year ended 31 December 2007, the supervisors of the Supervisory Committee have strictly complied with the requirements of the "Company Law of The People's Republic of China", "Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited" and the Articles of Association of the Company and adhered to the principles of honesty and integrity in discharging our supervisory duties and obligations faithfully and safeguarding the interests of the shareholders, the Company and its staff and be responsible to the shareholders.

During the year end 31 December 2007, two meetings of the Supervisory Committee were held.

(1) The second meeting of the third session of the Supervisory Committee was held on 23 March 2007 to review the annual results of the Company for the year ended 31 December 2006.

(2) The third meeting of the third session of the Supervisory Committee was held on 13 August 2007 to review the interim results of the Company for the six months ended 30 June 2007.

Subsequent to the year end on 25 March 2008, the fourth meeting of the third session of the Supervisory Committee was held on 25 March 2008 to review the annual results of the Company for the year ended 31 December 2007.

The Supervisory Committee had discharged its supervisory functions over the Board of Directors and senior management, including general manager, deputy general managers and the operations management of the Company during the year ended 31 December 2007.

As a result of our work, the Supervisory Committee is in a position to express its independent opinion in respect of the following matters:

1. The annual results of the Company for the years ended 31 December 2007 and 2006 and its interim results for the six month ended 30 June 2007 have reflected truly financial position and operating status the of the Group.

2. Senior management of the Company have not prejudiced the interests of the Company and its staff, or contravened the laws and regulations of the State and the Articles of Association of the Company in the performance of their duties.

3. The Company was not threatened with any major litigation nor was there any matter that the Supervisory Committee had intervened with or threatened against the Board of Directors.

4. The connected transactions and continuing connected transactions of the Company were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company.

REPORT OF THE SUPERVISORY COMMITTEE

We would like to express our appreciation for the strenuous supports given by the Shareholders, Directors and all staff to the work of the Supervisory Committee during the year.

By order of the Supervisory Committee
Zhang Yong Li
Chairman

Beijing, the People's Republic of China
25 March 2008

INDEPENDENT AUDITOR'S REPORT

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

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated financial statements of Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") set out on pages 34 to 94, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

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

Basis for qualified opinion

As stated in note 20 to the financial statements, the directors of the Company considered that no goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost should be recognised in the consolidated financial statements for the acquisition of Beijing Chengjian Donghua Real Estate Development Company Limited ("Chengjian Donghua") for the year ended 31 December 2005. However, we have not been provided with sufficient evidence to satisfy ourselves that the net fair value of the identifiable assets, liabilities and contingent liabilities of Chengjian Donghua as at the acquisition date is same as the cost of acquisition. There are no other satisfactory audit procedures that we could adopt to determine whether no goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is fairly stated in the financial statements. Any adjustment to the above might have a consequential effect on the gain on disposal of Chengjian Donghua for the year ended 31 December 2007; results for the years ended 31 December 2007 and 2006; and net assets as at 31 December 2007 and 2006.

Qualified opinion arising from limitation of audit scope

In our opinion, except for any adjustment that might have been determined to be necessary had we been able to obtain sufficient evidence concerning Chengjian Donghua as described above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON OTHER MATTERS

In respect alone of the limitation on our work relating to Chengjian Donghua, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

25 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	*6*	**156,141**	115,689
Cost of sales		**(130,595)**	(93,244)
Gross profit		**25,546**	22,445
Other income	*7*	**16,327**	8,146
Distribution costs		**(24,081)**	(22,892)
Administrative expenses		**(19,947)**	(18,628)
Other operating expenses		**(12,069)**	(2,359)
Loss from operations		**(14,224)**	(13,288)
Finance costs	*9*	**(38,884)**	(23,307)
Change in fair value of derivative financial instruments	*33*	**(7,064)**	–
Share of loss of an associate	*20*	**(861)**	(1,439)
Gain on disposal of an associate		**386,125**	–
Loss on disposal of a subsidiary	*39(a)*	**–**	(444)
Loss on deemed disposal of a subsidiary		**(21)**	–
Profit/(loss) before tax		**325,071**	(38,478)
Income tax expense	*10*	**(43,587)**	(982)
Profit/(loss) for the year	*11*	**281,484**	(39,460)
Attributable to:			
Equity holders of the Company		**282,494**	(39,634)
Minority interests		**(1,010)**	174
		281,484	(39,460)
Dividend	*14*	**23,696**	–
Earnings/(loss) per share			
Basic	*15*	**RMB 23.8 cents**	RMB (3.3) cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	16	**23,896**	24,623
Prepaid land lease payments	17	**5,693**	5,780
Goodwill	18	**6,125**	6,125
Other intangible assets	19	**–**	–
Investment in an associate	20	**–**	250,336
Available-for-sale financial assets	21	**377,291**	394,847
		413,005	681,711
Current assets			
Inventories	22	**13,112**	12,670
Trade receivables	23	**20,549**	15,202
Loan receivable	24	**130,120**	–
Due from a shareholder	25	**47**	94
Due from an associate	26	**–**	61,600
Due from related parties	27	**388**	390
Prepayments, deposits and other receivables	28	**23,159**	50,581
Non-pledged time deposits with original maturity of more than three months when acquired	29	**89,488**	139,475
Cash and cash equivalents	29	**654,107**	91,144
		930,970	371,156
Total assets		**1,343,975**	1,052,867
Current liabilities			
Trade payables	30	**20,408**	11,822
Advances from customers		**6,269**	7,815
Accruals and other payables		**46,471**	27,369
Due to a shareholder	25	**1,050**	612
Due to related parties	27	**2,029**	2,305
Bank loans	31	**10,000**	–
Other loan	32	**–**	220,996
Current tax liabilities		**52,663**	9,076
		138,890	279,995
Net current assets		**792,080**	91,161
Total assets less current liabilities		**1,205,085**	772,872

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Bank loans	*31*	–	20,000
Other loan	*32*	177,711	–
Derivative financial instruments	*33*	6,783	–
		184,494	20,000
NET ASSETS		1,020,591	752,872
Capital and reserves			
Share capital	*35*	118,480	118,480
Reserves		843,985	630,113
Equity attributable to equity holders of the Company		962,465	748,593
Minority interests		58,126	4,279
TOTAL EQUITY		1,020,591	752,872

Approved by the Board of Directors on 25 March 2008

XU ZHEN DONG
Director

XU ZHI XIANG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company									
	Share capital RMB'000	Capital reserve RMB'000 *Note 37(c)(i)*	Reserve funds RMB'000 *Note 37(c)(ii)*	Foreign currency translation reserve RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	118,480	377,720	53,787	(11,556)	68,711	208,568	–	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	–	–	–	(12,060)	(15,423)	–	–	(27,483)	–	(27,483)
(Loss)/profit for the year	–	–	–	–	–	(39,634)	–	(39,634)	174	(39,460)
Total recognised income and expense for the year	–	–	–	(12,060)	(15,423)	(39,634)	–	(67,117)	174	(66,943)
At 31 December 2006	118,480	377,720	53,787	(23,616)	53,288	168,934	–	748,593	4,279	752,872
At 1 January 2007	118,480	377,720	53,787	(23,616)	53,288	168,934	–	748,593	4,279	752,872
Changes in fair value of available-for-sale financial assets	–	–	–	–	(49,082)	–	–	(49,082)	13,075	(36,007)
Impairment on available-for-sale financial assets	–	–	–	–	522	–	–	522	–	522
Translation differences	–	–	–	(20,551)	–	–	–	(20,551)	–	(20,551)
Net (expense)/income recognised directly in equity	–	–	–	(20,551)	(48,560)	–	–	(69,111)	13,075	(56,036)
Profi/(loss) for the year	–	–	–	–	–	282,494	–	282,494	(1,010)	281,484
Total recognised income and expense for the year	–	–	–	(20,551)	(48,560)	282,494	–	213,383	12,065	225,448
Transfer	–	–	24,187	–	–	(24,187)	–	–	–	–
Loss on deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	21	21
Capital contribution from minority interests	–	489	–	–	–	–	–	489	41,761	42,250
2007 proposed final dividend *(note 14)*	–	–	–	–	–	(23,696)	23,696	–	–	–
At 31 December 2007	118,480	378,209	77,974	(44,167)	4,728	403,545	23,696	962,465	58,126	1,020,591

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**325,071**	(38,478)
Adjustments for:			
Allowance for doubtful other receivables		**660**	117
Allowance for doubtful trade receivables		**1,087**	4,058
Allowance for obsolete and slow-moving inventories		**1,601**	1,999
Bank interest income		**(12,819)**	(5,648)
Change in fair value of derivative financial instruments		**7,064**	–
Depreciation and amortisation expenses		**2,732**	2,759
Gain on disposal of an associate		**(386,125)**	–
Gain on disposal of held-for-trading investments		**(255)**	(6)
Impairment on available-for-sale financial assets		**5,759**	–
Interest expenses		**20,929**	23,307
Interest income from loan receivable		**(93)**	–
Interest income from loan to others		**(285)**	(982)
Loss on deemed disposal of a subsidiary		**21**	–
Loss on disposal of a subsidiary	*39(a)*	**–**	444
Loss on disposal of property, plant and equipment		**35**	12
Net foreign exchange losses/(gains)		**17,955**	(233)
Operating lease charges		**87**	86
Reversal of allowance for doubtful other receivables		**(161)**	(4,295)
Reversal of allowance for doubtful trade receivables		**(1,693)**	(3,962)
Reversal of allowance for obsolete and slow-moving inventories		**–**	(928)
Share of loss of an associate		**861**	1,439
Write-back of trade payables		**(1,161)**	–
Write-off of obsolete and slow-moving inventories		**380**	911
Operating loss before working capital changes		**(18,350)**	(19,400)
(Increase)/decrease in inventories		**(2,423)**	4,380
(Increase)/decrease in trade receivables		**(4,979)**	3,087
Decrease in prepayments, deposits and other receivables		**4,520**	52,923
Increase/(decrease) in trade payables		**10,083**	(195)
(Decrease)/increase in advances from customers		**(1,364)**	2,307
Increase in accruals and other payables		**6,256**	157
Net cash (used in)/generated from operating activities		**(6,257)**	43,259

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**45,962**	9,546
Proceeds from disposal of property, plant and equipment		**21**	3
Purchases of property, plant and equipment		**(2,062)**	(500)
Deposits paid for purchases of property, plant and equipment		**(10,526)**	–
Purchases of available-for-sale financial assets		**(37,696)**	(6,033)
Purchases of held-for-trading investments		**(20,000)**	(2,000)
Loans to other		**(129,259)**	–
Disposal of a subsidiary	*39(a)*	**–**	(71)
Proceeds from disposal of held-for-trading investments		**20,255**	2,006
Interest received		**14,292**	5,116
Decrease in amount due from an associate		**61,600**	–
Deposits paid for purchase of available-for-sale financial assets		**(40,000)**	–
Refund of deposits paid for purchase of available-for-sale financial assets		**40,000**	–
Disposal of an associate		**635,600**	–
Net cash generated from investing activities		**578,187**	8,067
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(10,000)**	(226,940)
Loans to others included in other receivables		**–**	(48,200)
Repayment from loans to others included in other receivables		**28,000**	40,700
Other loan raised		**–**	220,996
Repayment of other loan		**(33,512)**	–
Decrease in amount due from a shareholder		**47**	398
Increase in amounts due from related parties		**–**	(31)
Increase/(decrease) in amount due to a shareholder		**438**	(494)
Decrease in amounts due to related parties		**(276)**	(4,755)
Interest paid		**(15,504)**	(22,499)
Capital contribution from minority interests		**42,250**	–
Net cash generated from/(used in) financing activities		**11,443**	(40,825)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**583,373**	10,501
Effect of foreign exchange rate changes		**(20,410)**	(3,251)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**91,144**	83,894
CASH AND CASH EQUIVALENTS AT END OF YEAR		**654,107**	91,144

1. GENERAL INFORMATION

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

The Company is engaged in the marketing and sale of embedded systems products, including network security products ("NET") and related products. The principal activities of its subsidiaries are set out in note 44 to the financial statements.

In the opinion of the directors of the Company, Peking University, a university in Beijing, the PRC, is the ultimate controlling shareholder of the Company.

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

In the current year, the Group has adopted all the new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; 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 Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and derivatives which are carried at their fair values.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(a) Consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

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

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

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

(c) Associates

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associates (Continued)

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

(iii) Translation on consolidation

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

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(d) **Foreign currency translation** (Continued)

(iii) Translation on consolidation (Continued)

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

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

(e) **Property, plant and equipment**

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

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

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

Buildings	20 years
Machinery and equipment	3 to 10 years
Leasehold improvements, furniture and office equipment	2 to 5 years
Motor vehicles	5 years

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

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

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

(f) **Operating leases**

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other intangible assets

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

(h) Research and development expenditure

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

(i) Inventories

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

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Investments

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

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

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

(ii) Available-for-sale financial assets

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

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

(l) Trade and other receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash and cash equivalents

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

(n) Financial liabilities and equity instruments

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

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

(o) Derivative financial instruments

Derivatives are initially recognised at fair value on the contract date and are subsequently measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Revenue recognition

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

Revenues from the sales of embedded systems and related products are recognised, when the installation work is completed, the customer has accepted the systems and the products and the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the embedded systems and related products sold.

Revenues from the sales of computer products ("Computer") are recognised, when the products are shipped, the title of which has passed and the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the computer products sold.

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

(q) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Borrowing costs

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

(s) Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

(u) Segment reporting

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Impairment of assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(w) Provisions and contingent liabilities

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

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

(x) Events after the balance sheet date

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

Goodwill recognition on the investment in an associate

As disclosed in note 20 to financial statements, management considered that neither goodwill nor excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost should be recognised in the consolidated financial statements related to the acquisition of an associate in 2005.

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

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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

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

(b) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was RMB6,125,000 (2006: RMB6,125,000) after an impairment loss of RMB Nil (2006: RMB Nil) was recognised during 2007. Details of the impairment loss calculation are provided in note 18 to financial statements.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) Impairment of available-for-sale financial assets

The Group reviews the recoverability of the Group's available-for-sale financial assets with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceeds their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

(e) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(f) Fair value of available-for-sale financial assets and derivative financial instruments

As disclosed in note 21 to financial statements, the fair values of certain available-for-sale financial assets at the balance sheet date were determined using valuation techniques which include the use of recent arm's length transactions and reference to other instruments that are substantially the same. Application of valuation techniques requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the relevancy of the recent arm's length transactions and other instruments that are substantially the same.

As disclosed in note 33 to financial statements, the fair values of derivative financial instruments at the date of issue and the balance sheet date were determined using option pricing models. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the options and the expected volatility of the share values of the underlying available-for-sale financial assets.

Where the estimation on the above factors is different from those previously estimated, such differences will impact the fair value gain or loss of the available-for-sale financial assets and derivative financial instruments in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United State dollars and RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and debts. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2007, if RMB had weakened 5 per cent against United States dollar ("USD") with all other variables held constant, consolidated profit after tax for the year would have been RMB7,168,000 higher (2006: loss of RMB251,000 lower), arising mainly as a result of the foreign exchange gain on non-pledged time deposits and cash and cash equivalents. If RMB had strengthened 5 per cent against USD with all other variables held constant, consolidated profit after tax for the year would have been RMB7,168,000 lower (2006: loss of RMB251,000 higher), arising mainly as a result of the foreign exchange loss on non-pledged time deposits and cash and cash equivalents.

(b) Price risk

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

At 31 December 2007, if the share price of the equity securities listed in Hong Kong had increased by 10% with all other variables held constant, the consolidated investment revaluation reserve would have been RMB29,421,000 (2006: RMB38,881,000) higher. If the share price of the equity securities listed in Hong Kong had decreased by 10% with all other variables held constant, the consolidated investment revaluation reserve would have been RMB29,421,000 (2006: RMB38,881,000) lower.

At 31 December 2007, if the fair value of the equity securities listed outside Hong Kong had increased by 10% with all other variables held constant, the consolidated investment revaluation reserve would have been RMB8,298,000 (2006: RMB Nil) higher. If the fair value of the equity securities listed outside Hong Kong had decreased by 10% with all other variables held constant, the consolidated investment revaluation reserve would have been RMB8,298,000 (2006: RMB Nil) lower.

(c) Credit risk

The carrying amount of the non-pledged time deposits and the cash and cash equivalents, trade and other receivables, investments, and loan receivable included in the balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

The Group has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related parties are closely monitored by the directors.

The credit risk on the non-pledged time deposits and the cash and cash equivalents is limited because the counterparties are financial institutions with high credit-ratings.

(d) Liquidity risk

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

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007				
Bank loans	10,000	–	–	–
Other loan	–	–	206,427	–
Trade payables	20,408	–	–	–
Accruals and other payables	46,471	–	–	–
At 31 December 2006				
Bank loans	–	20,000	–	–
Other loan	220,996	–	–	–
Trade payables	11,822	–	–	–
Accruals and other payables	27,369	–	–	–

(e) Interest rate risk

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

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been RMB1,844,000 higher (2006: loss of RMB2,344,000 lower), arising mainly as a result of lower interest expense on bank and other loans. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been RMB1,844,000 lower (2006: loss of RMB2,344,000 higher), arising mainly as a result of higher interest expense on bank and other loans.

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair values

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

6. TURNOVER

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

	2007	2006
	RMB'000	RMB'000
Sales of embedded systems and related products	**79,176**	56,699
Sales of Computer	**76,965**	58,990
	156,141	115,689

7. OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Bank interest income	**12,819**	5,648
Interest income from loan receivable	**93**	–
Interest income from loans to others	**285**	982
Net foreign exchange gains	**–**	233
Others	**3,130**	1,283
	16,327	8,146

8. SEGMENT INFORMATION

(a) Primary reporting format - business segments

The Group is organised into five main business segments:

– the manufacture and sale of NET;

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

– the trading of Computer;

– the properties development; and

– the tourism development.

(b) Secondary reporting format - geographical segments

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

– Mainland China

– Hong Kong

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

8. SEGMENT INFORMATION (Continued)

Primary reporting format - business segments

	NET RMB'000	WFAS RMB'000	Computer RMB'000	Properties development RMB'000	Tourism development RMB'000	Total RMB'000
Year ended 31 December 2007						
Revenue	15,279	63,897	76,965	–	–	156,141
Results						
Segment results	(1,377)	108	3,733	–	(1,054)	1,410
Interest income						13,197
Finance costs						(38,884)
Change in fair value of derivative financial instruments						(7,064)
Share of loss of an associate				(861)		(861)
Gain on disposal of an associate						386,125
Loss on deemed disposal of a subsidiary						(21)
Unallocated corporate expenses						(28,831)
Profit before tax						325,071
Income tax expense						(43,587)
Profit for the year						281,484
At 31 December 2007						
ASSETS						
Segment assets	16,563	50,257	13,946	–	93,685	174,451
Less: Intersegment assets	(741)					(741)
Unallocated corporate assets						1,170,265
Total assets						1,343,975
LIABILITIES						
Segment liabilities	13,137	17,985	13,413	–	12,598	57,133
Less: Intersegment liabilities	(741)					(741)
Unallocated corporate liabilities						266,992
Total liabilities						323,384
OTHER SEGMENT INFORMATION						
Capital expenditure	1,695	339	–	–	28	2,062
Depreciation and amortisation expenses	1,315	1,396	21	–	–	2,732
Allowance for doubtful other receivables	–	660	–	–	–	660
Allowance for doubtful trade receivables	207	880	–	–	–	1,087
Allowance for obsolete and slow-moving inventories	–	1,601	–	–	–	1,601
Operating lease charges	87	–	–	–	–	87
Reversal of allowance for doubtful other receivables	(161)	–	–	–	–	(161)
Reversal of allowance for doubtful trade receivables	–	(247)	(1,446)	–	–	(1,693)
Written off of obsolete and slow-moving inventories	380	–	–	–	–	380
Write-back of trade payables	–	–	(1,161)	–	–	(1,161)

8. SEGMENT INFORMATION (Continued)

Primary reporting format - business segments (Continued)

	NET RMB'000	WFAS RMB'000	Computer RMB'000	Properties development RMB'000	Total RMB'000
Year ended 31 December 2006					
Revenue	12,563	44,136	58,990	–	115,689
Results					
Segment results	(3,349)	4,248	37	–	936
Interest income					6,630
Finance costs					(23,307)
Share of loss of an associate				(1,439)	(1,439)
Loss on disposal of a subsidiary					(444)
Unallocated corporate expenses					(20,854)
Loss before tax					(38,478)
Income tax expense					(982)
Loss for the year					(39,460)
At 31 December 2006					
ASSETS					
Segment assets	59,125	38,804	13,542	61,600	173,071
Investment in an associate				250,336	250,336
Less: Intersegment assets					(53,330)
Unallocated corporate assets					682,790
Total assets					1,052,867
LIABILITIES					
Segment liabilities	8,634	60,122	7,525	–	76,281
Less: Intersegment liabilities					(53,330)
Unallocated corporate liabilities					277,044
Total liabilities					299,995
OTHER SEGMENT INFORMATION					
Capital expenditure	83	410	7	–	500
Depreciation and amortisation expenses	1,299	1,397	63	–	2,759
Allowance for doubtful other receivables	9	108	–	–	117
Allowance for doubtful trade receivables	56	–	4,002	–	4,058
Allowance for obsolete and slow-moving inventories	–	–	1,999	–	1,999
Operating lease charges	86	–	–	–	86
Reversal of allowance for doubtful other receivables	(68)	–	(4,227)	–	(4,295)
Reversal of allowance for doubtful trade receivables	(71)	(997)	(2,894)	–	(3,962)
Reversal of allowance for obsolete and slow-moving inventories	(928)	–	–	–	(928)
Write-off of obsolete and slow-moving inventories	911	-	-	-	911

8. SEGMENT INFORMATION (Continued)

Secondary reporting format - geographical segments

	Revenue		Segment assets		Capital expenditure	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Mainland China	**98,713**	73,034	**504,265**	591,913	**2,062**	493
Hong Kong	**53,121**	37,961	**839,710**	455,021	**–**	7
Others	**4,307**	4,694	**–**	5,933	**–**	–
	156,141	115,689	**1,343,975**	1,052,867	**2,062**	500

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank loans	**791**	22,478
Interest on other loan	**20,138**	829
Net exchange losses	**17,955**	–
	38,884	23,307

10. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
Current tax – Mainland China	**43,587**	982

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2007 and 2006 as the Group did not generate any assessable profits arising in Hong Kong during the years.

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

The Company is registered in the Beijing New Technology Enterprise Development Zone and has been certified by the relevant PRC authorities as a high technology enterprise. Pursuant to the Income Tax Law in the PRC, the Company is subject to enterprise 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 enterprise income tax for the three years ended 31 December 2005.

10. INCOME TAX EXPENSE (Continued)

No provision for enterprise income tax was made for the year ended 31 December 2006 as the Company incurred tax loss for that year.

The subsidiaries of the Group established in the PRC are generally subjected 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.

The reconciliation between the income tax expense and the product of profit/(loss) before tax multiplied by the PRC enterprise income tax rate is as follows:

	2007	2006
	RMB'000	RMB'000
Profit/(loss) before tax	**325,071**	(38,478)
Tax at the domestic income tax rate of 33% (2006: 33%)	**107,273**	(12,698)
Tax effect of share of loss of an associate that is not deductible	**284**	475
Tax effect of income that is not taxable	**(561)**	(338)
Tax effect of expenses that are not deductible	**8,983**	1,068
Tax effect of utilisation of tax losses not previously recognised	**(31,262)**	–
Tax effect of tax losses not recognised	**9,921**	12,475
Under-provision in current year	**(307)**	–
Tax effect of tax concession	**(50,744)**	–
Income tax expense	**43,587**	982

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law has been effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements is not material.

11. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging/(crediting) the following:

	2007	2006
	RMB'000	RMB'000
Advertising and promotion costs	**11,162**	11,332
Allowance for doubtful other receivables	**660**	117
Allowance for doubtful trade receivables	**1,087**	4,058
Allowance for obsolete and slow-moving inventories (included in other operating expenses)	**1,601**	1,999
Amortisation of other intangible assets	**–**	40
Auditors' remuneration	**1,180**	1,000
Cost of inventories sold	**129,826**	90,508
Depreciation	**2,732**	2,719
Gain on disposal of held-for-trading investments	**(255)**	(6)
Impairment on available-for-sale financial assets	**5,759**	–
Loss on disposal of property, plant and equipment	**35**	12
Net foreign exchange losses/(gains)	**17,955**	(233)
Operating leases charges in respect of land and buildings	**1,918**	1,888
Research and development expenditure	**4,350**	4,418
Reversal of allowance for doubtful other receivables	**(161)**	(4,295)
Reversal of allowance for doubtful trade receivables	**(1,693)**	(3,962)
Reversal of allowance for obsolete and slow-moving inventories (included in other operating expenses)	**–**	(928)
Staff costs (excluding directors' and supervisors' emoluments)		
Retirements benefits scheme contributions	**1,219**	1,086
Social security costs	**1,154**	1,025
Wages, salaries and bonuses	**15,028**	15,292
Write-off of obsolete and slow-moving inventories (included in other operating expenses)	**380**	911

Cost of inventories sold includes staff costs and depreciation of approximately RMB2,650,000 (2006: RMB2,406,000) which are included in the amounts disclosed separately above.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The emoluments of each director and supervisor were as follows:

	Fees	Salaries and allowances	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of director					
Mr. Xu Zhen Dong	250	96	500	–	846
Mr. Xu Zhi Xiang	200	96	500	–	796
Mr. Zhang Wan Zhong	160	96	500	–	756
Mr. Lo Lin Shing, Simon *(Note (a))*	13	–	–	–	13
Mr. Liu Yong Jin	50	–	–	–	50
Mr. Hao Yi Long	50	–	–	–	50
Mr. Li Li Xin *(Note (b))*	50	–	–	–	50
Prof. Nan Xiang Hao	50	–	–	–	50
Prof. Chin Man Chung, Ambrose	50	–	–	–	50
Mr. Cai Chuan Bing	50	–	–	–	50
	923	288	1,500	–	2,711
Name of supervisor					
Mr. Zhang Yong Li	30	–	–	–	30
Mr. Du Hong	30	–	–	–	30
Ms. Lu Qing	30	–	–	–	30
Mr. Li De Yong	30	–	–	–	30
Ms. Dong Xiao Qing	30	–	–	–	30
	150	–	–	–	150
Total for 2007	1,073	288	1,500	–	2,861

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

The emoluments of each director and supervisor were as follows: (Continued)

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of director					
Mr. Xu Zhen Dong	–	346	–	–	346
Mr. Xu Zhi Xiang	–	296	–	–	296
Mr. Zhang Wan Zhong	–	256	–	–	256
Mr. Lo Lin Shing, Simon	50	–	–	–	50
Mr. Liu Yong Jin	50	–	–	–	50
Mr. Hao Yi Long	50	–	–	–	50
Mr. Li Li Xin	50	–	–	–	50
Mr. Wang Chao Yong *(Note (c))*	50	–	–	–	50
Prof. Nan Xiang Hao	50	–	–	–	50
Prof. Chin Man Chung, Ambrose	50	–	–	–	50
Mr. Cai Chuan Bing	50	–	–	–	50
	400	898	–	–	1,298
Name of supervisor					
Mr. Zhang Yong Li	30	–	–	–	30
Mr. Du Hong	30	–	–	–	30
Ms. Lu Qing	30	–	–	–	30
Mr. Li De Yong	30	–	–	–	30
Ms. Dong Xiao Qing	30	–	–	–	30
	150	–	–	–	150
Total for 2006	550	898	–	–	1,448

Notes: (a) Resigned on 4 April 2007
(b) Resigned on 6 March 2008
(c) Resigned on 30 June 2006

Pursuant to the service contracts entered into between the Company and its executive directors, the Company's executive directors are entitled to an aggregate amount of bonuses of not more than 5% of the consolidated profit after tax but before the provision of such bonuses.

There was no arrangement under which a director or a supervisor waived or agreed to waive any emoluments during the years ended 31 December 2007 and 2006.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid employees

The five highest paid employees in the Group during the year included three (2006: three) directors, whose emoluments are also reflected in the analysis presented above. Details of the emoluments of the five highest paid individuals are as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries and allowances	**1,902**	1,810
Discretionary bonus	**1,554**	–
Retirement benefit scheme contributions	**55**	10
	3,511	1,820

The emoluments of each of the highest paid individuals for the year ended 31 December 2007 fell within the band of nil to RMB975,200 (equivalent to Hong Kong dollars ("HK$") 1,000,000) (2006: RMB1,026,100 (equivalent to HK$1,000,000)).

During the year, no emoluments were paid by the Group to any of the directors or supervisors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2006: RMB Nil).

13. RETIREMENT BENEFIT SCHEMES

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

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

14. DIVIDEND

	2007 RMB'000	2006 RMB'000
Proposed final of RMB2 cents (2006: RMB Nil) per ordinary share	**23,696**	–

15. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings (2006: loss) per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately RMB282,494,000 (2006: loss for the year attributable to equity holders of the Company of approximately RMB39,634,000) and the weighted average number of ordinary shares of 1,184,800,000 (2006: 1,184,800,000) in issue during the year.

Diluted earnings/(loss) per share

No diluted earnings/(loss) per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 December 2007.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Leasehold improve-ments, furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2006	17,803	24,737	4,130	3,908	3,029	53,607
Additions	171	166	66	97	–	500
Transfer	3,029	–	–	–	(3,029)	–
Disposals	–	(1,686)	(239)	(260)	–	(2,185)
Exchange differences	–	–	–	(11)	–	(11)
At 31 December 2006 and 1 January 2007	21,003	23,217	3,957	3,734	–	51,911
Additions	26	256	20	1,760	–	2,062
Disposals	–	(643)	(104)	(162)	–	(909)
Exchange differences	–	–	–	(21)	–	(21)
At 31 December 2007	**21,029**	**22,830**	**3,873**	**5,311**	**–**	**53,043**
Accumulated depreciation						
At 1 January 2006	452	21,012	3,652	1,632	–	26,748
Charge for the year	1,257	716	112	634	–	2,719
Disposals	–	(821)	(1,349)	–	–	(2,170)
Exchange differences	–	–	–	(9)	–	(9)
At 31 December 2006 and 1 January 2007	1,709	20,907	2,415	2,257	–	27,288
Charge for the year	1,258	628	107	739	–	2,732
Disposals	–	(597)	(102)	(154)	–	(853)
Exchange differences	–	–	–	(20)	–	(20)
At 31 December 2007	**2,967**	**20,938**	**2,420**	**2,822**	**–**	**29,147**
Carrying amount						
At 31 December 2007	**18,062**	**1,892**	**1,453**	**2,489**	**–**	**23,896**
At 31 December 2006	19,294	2,310	1,542	1,477	–	24,623

At 31 December 2007 the carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to RMB12,887,000 (2006: RMB14,162,000) (note 31).

17. PREPAID LAND LEASE PAYMENTS

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

18. GOODWILL

	RMB'000
Cost	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	7,867
Accumulated impairment losses	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	1,742
Carrying amount	
At 31 December 2007	**6,125**
At 31 December 2006	6,125

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next three years with the residual period using the growth rate of 6% (2006: 6%). This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's WFAS segment is 15.5% (2006: 18.45%). The recoverable amount of the goodwill arising on acquisition at the subsidiary has been determined to be higher than its carrying amount and accordingly no impairment loss for goodwill was recognised during the year.

19. OTHER INTANGIBLE ASSETS

	Information technology rights RMB'000
Cost	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	1,200
Accumulated amortisation	
At 1 January 2006	1,160
Amortisation for the year	40
At 31 December 2006, 1 January 2007 and 31 December 2007	1,200
Carrying amount	
At 31 December 2007	**–**
At 31 December 2006	–

20. INVESTMENT IN AN ASSOCIATE

	2007 RMB'000	2006 RMB'000
Unlisted investments:		
Share of net assets	**–**	250,336

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

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

The associate had been disposed of during the year ended 31 December 2007.

20. INVESTMENT IN AN ASSOCIATE (Continued)

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

	2007 **RMB'000**	2006 RMB'000
At 31 December		
Total assets *(note (a))*	**–**	2,639,042
Total liabilities *(note (b))*	**–**	(2,648,354)
Net liabilities	**–**	(9,312)
Year ended 31 December		
Total revenue	**–**	–
Total loss up to the date of disposal/for the year	**(1,958)**	(3,271)
Group's share of associate's loss up to the date of disposal/for the year	**(861)**	(1,439)

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 year ended 31 December 2006 and 2007, 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 intended to take the legal action to sue Chengjian Donghua.

20. INVESTMENT IN AN ASSOCIATE (Continued)

Note:

(a) Consisting mainly of the following:

	2007 **RMB'000**	2006 RMB'000
Property development costs	–	2,154,696
Other receivables	–	483,643

(b) Consisting mainly of the following:

	2007 **RMB'000**	2006 RMB'000
Amount due to Beida Jade Bird	–	2,141,694
Amount due to the Company	–	61,600
Amount due to Beijing Donghua Company, a fellow subsidiary of the Company	–	42,448
Payable to contractors	–	398,408

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007 **RMB'000**	2006 RMB'000
Equity securities, at fair value		
Listed in Hong Kong	**294,211**	388,814
Listed outside Hong Kong	**82,980**	–
Equity securities, at cost		
Unlisted outside Hong Kong	**100**	2,078
Debt instruments, at fair value		
Unlisted outside Hong Kong	–	3,271
Convertible option of debt instruments, at fair value		
Unlisted outside Hong Kong	–	684
	377,291	394,847

The fair values of equity securities listed in Hong Kong are based on current bid prices. As the market for the equity securities listed outside Hong Kong is not active, the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same. Unlisted equity securities with carrying amount of RMB100,000 (2006: RMB2,078,000) were carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

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

At 31 December 2007 the carrying amount of the Group's holdings in the following company exceeded 10% of the total assets of the Group:

Name	Place of incorporation	Issued and paid up capital	Shares held by the Group	Percentage of ownership interest	Principal activities
Semiconductor Manufacturing International Corporation ("SMIC")	Cayman Islands	18,558,919,712 ordinary shares of USD0.0004 each	383,163,400 ordinary shares of USD0.0004 each	2.06%	Fabricate semiconductors for customers based on their own or third parties' integrated circuit designs

During the year ended 31 December 2006, 323,888,000 ordinary shares of USD0.0004 each of SMIC ("Loaned Securities") with carrying amount approximately HK$327,127,000 (approximately RMB328,664,000) owned by the Group are lent to a financial institution. The Loaned Securities are transferred to the financial institution in exchange of the cash collateral amounted to approximately USD28,296,000 (approximately RMB220,996,000) ("Cash Collateral") paid by the financial institution and recorded as the other loan of the Group (note 32). The financial institution should redeliver the Loaned Securities to the Group and the Group should redeliver the Cash Collateral to the financial institution within one year.

During the year ended 31 December 2007, the Group entered into a supplemental agreement with the financial institution, pursuant to which the Group and the financial institution thereto agreed to the extension of the duration of the Cash Collateral for three more years following its expiration, and adjustment to rate of interest on the Cash Collateral and the maximum amount of Cash Collateral to be deposited by the financial institution with the Group.

During the year ended 31 December 2007, the Group repaid RMB33,512,000 to the financial institution resulted from decrease in the market value of the Loaned Securities in accordance with the provision of mark-to-market value of the Cash Collateral fixed in the agreement.

Furthermore, the Group and the financial institution entered into a share options agreement, pursuant to which the Group agreed to grant to the financial institution the share options on 50% of the Loan Securities, on the basis of one Loan Security per share option and expiring on the date falling two trading days before 18 June 2010. Details of the share options agreement are included in note 33 to the financial statements.

At 31 December 2007, the Loaned Securities with carrying amount approximately RMB248,697,000 (2006: RMB328,664,000) owned by the Group were lent to the financial institution.

At 31 December 2007, the remaining 59,275,400 (2006: 59,275,400) ordinary shares of USD0.0004 each of SMIC held by the Group with carrying amount approximately RMB45,514,000 (2006: RMB60,150,000) were not for sale without the prior written agreement from the financial institution.

22. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**9,280**	9,880
Work in progress	**1,576**	1,424
Finished goods	**6,125**	3,932
	16,981	15,236
Less: Allowance for obsolete and slow-moving inventories	**(3,869)**	(2,566)
	13,112	12,670

23. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is sometimes required. The credit period generally ranges from 3 to 6 months, starting from the date on which the significant risks and rewards of ownership of products are transferred by the Group to customers or the date of completion of services provided or the payment due date as defined in the contracts, whichever is the latest. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforesaid and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The ageing 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:

	2007 RMB'000	2006 RMB'000
0 to 90 days	**17,940**	12,035
91 to 180 days	**681**	1,641
181 to 365 days	**1,188**	649
Over 365 days	**740**	877
	20,549	15,202

23. TRADE RECEIVABLES (Continued)

As at 31 December 2007, an allowance for estimated irrecoverable trade receivables was approximately RMB39,770,000 (2006: RMB40,694,000). The decrease for the years ended 31 December 2007 and 2006 represented the net impact of allowance for doubtful trade receivables and reversal of allowance of doubtful trade receivables amounted to RMB1,087,000 (2006: RMB4,058,000) and RMB1,693,000 (2006: RMB3,962,000) respectively; write-off of doubtful trade receivables of RMB Nil (2006: RMB1,132,000);and foreign exchange translation gain of RMB318,000 (2006: RMB165,000).

As of 31 December 2007, trade receivables of RMB2,455,000 (2006: RMB1,655,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007 **RMB'000**	2006 RMB'000
Up to 3 months	**2,185**	1,551
3 to 6 months	**270**	104
	2,455	1,655

Analysis of the trade receivables denominated in the presentation currency and the currency other than the presentation currency of the Group is as follows:

	2007 **RMB'000**	2006 RMB'000
RMB	**13,321**	9,955
USD	**7,228**	5,247
	20,549	15,202

24. LOAN RECEIVABLE

The loan receivable, which is denominated in USD, is secured by a share charge executed by the holding company of the borrower over thirty six shares of the borrower, interest-bearing at annual interest rate of 30% and is repayable within one year.

25. DUE FROM/TO A SHAREHOLDER

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

26. DUE FROM AN ASSOCIATE

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

27. DUE FROM/TO RELATED PARTIES

The amounts due from/to related parties are unsecured, interest-free and have no fixed repayment terms.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Advances to suppliers	**6,017**	7,765
Prepayments	**321**	10,502
Advances to staff	**1,920**	1,267
Deposits	**13,322**	230
Other receivables	**1,579**	30,817
	23,159	50,581

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. In 2007, 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. In 2007, 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 agreement are from 16 May 2006 to 15 May 2007 and from 7 June 2006 to 6 March 2007 respectively. In 2006, the Company had waived all the interest thereon the loan 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.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

In addition, during the year ended 31 December 2006, 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 USD2 million and USD1 million respectively, the Group was required to make an advance payment of 100% and 100% of the purchase consideration to Newbase Investments Limtied amounting to USD2 million and USD1 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 USD2 million and USD1 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 USD1.21 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, USD110,000 and USD1.1 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 USD1.21 million were settled on 14 December 2006 and 20 December 2006 respectively.

29. DEPOSITS AND CASH AND CASH EQUIVALENTS

	2007	2006
	RMB'000	RMB'000
Cash and bank balances	**161,664**	91,144
Time deposits	**581,931**	139,475
	743,595	230,619
Less: Non-pledged time deposits with original maturity of more than three months when acquired	**(89,488)**	(139,475)
Cash and cash equivalents	**654,107**	91,144

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for terms of between one week and twelve months (2006: one and six months) depending on the immediate cash requirements of the Group.

29. DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

Analysis of the deposits and cash and cash equivalents denominated in the presentation currency and the currencies other than the presentation currency of the Group is as follows:

	2007 RMB'000	2006 RMB'000
RMB	**85,505**	78,166
HKD	**69,197**	72,490
USD	**588,893**	79,963
	743,595	230,619

30. TRADE PAYABLES

The ageing analysis of 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:

	2007 RMB'000	2006 RMB'000
0 to 90 days	**16,669**	7,022
91 to 180 days	**117**	504
181 to 365 days	**133**	212
Over 365 days	**3,489**	4,084
	20,408	11,822

Analysis of the trade payables denominated in the presentation currency and the currency other than the presentation currency of the Group is as follows:

	2007 RMB'000	2006 RMB'000
RMB	**16,568**	6,521
USD	**3,840**	5,301
	20,408	11,822

31. BANK LOANS

The bank loans are repayable as follows:

	2007 RMB'000	2006 RMB'000
On demand or within one year	**10,000**	–
In the second year	**–**	20,000
	10,000	20,000
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(10,000)**	–
Amount due for settlement after 12 months	**–**	20,000

All the carrying amounts of the Group's bank loans are denominated in RMB.

The average interest rates paid for bank loans at 31 December 2007 were 7.43% (2006: 7.53%).

At 31 December 2007, bank loans of RMB10,000,000 (2006: RMB20,000,000) were secured by a charge over certain property, plant and equipment of the Group (note 16).

32. OTHER LOAN

At 31 December 2006, the Group's other loan represented the Cash Collateral received from a financial institution in exchange of the available-for-sale financial assets lent to them (note 21). The Cash Collateral is denominated in USD and repayable within one year. The coupon interest rate and the effective interest rate of the Cash Collateral are USD-LIBOR one month rate plus 4% and 11.4% respectively.

During the year ended 31 December 2007, the Group entered into a supplemental agreement with the financial institution, pursuant to which the Group and the financial institution thereto agreed to extension of the duration of the Cash Collateral for three more years to 18 June 2010. The coupon interest rate of the Cash Collateral has been changed to USD-LIBOR three month rate plus 4% while the effective interest rate is 6.4%.

33. DERIVATIVE FINANCIAL INSTRUMENTS

On 18 May 2007, the Group entered into a share options agreement with the financial institution, pursuant to which the Group agreed to grant this financial institution share options on 50% of any of the 323,888,000 fully paid ordinary shares of SMIC lent by the Group to this financial institution (note 21) on a one-to-one basis. The share options are automatically exercisable by the financial institution by reference to the options relevant price on each day of the exercise period as compared to the strike price which is fixed at the amount of USD0.2168 (equivalent to approximately RMB1.5836) per share, and will expire on the date falling 2 days on which the Stock Exchange is scheduled to be opened for trading during its regular trading session before 18 June 2010. The share options are exercisable by two methods, being physical settlement and cash settlement methods.

The fair value of the share options were calculated using an option pricing model and the change in fair value is recognised in the income statement.

	2007 **RMB'000**	2006 RMB'000
Change in fair value for the year	**7,064**	–
Exchange differences	**(281)**	–
Fair value of share options at 31 December	**6,783**	–

At 31 December 2007, the inputs into the option pricing model are as follows:

	2007
Current share price	**HK$0.82**
Exercise price	**HK$1.6959**
Expected volatility	**38%**
Life of options	**2.47 years**
Risk free rate	**2.67%**
Expected dividend yield	**0%**

Expected volatility was determined by calculating the historical volatility of the share price of SMIC over the previous 2 years.

34. DEFERRED TAX

At the balance sheet date the Group has unused tax losses of approximately RMB14,420,000 (2006: RMB144,697,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: 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.

35. SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid:		
700,000,000 domestic shares of RMB0.10 each	**70,000**	70,000
484,800,000 H shares of RMB0.10 each	**48,480**	48,480
	118,480	118,480

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total debts less cash and cash equivalents. Total equity comprises all components of equity (i.e. share capital, share premium, minority interests, retained earnings and other reserves).

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the debt-to-equity ratio at the lower end of the range 0.1 to 0.3, in order to secure access to finance at a reasonable cost. The debt-to-equity ratios at 31 December 2007 and at 31 December 2006 were as follows:

	2007 RMB'000	2006 RMB'000
Total debt	**187,711**	240,996
Less: cash and cash equivalents	**(187,711)**	(91,144)
Net debt	**–**	149,852
Total equity	**1,020,591**	752,872
Debt-to-equity ratio	**–**	0.20

35. SHARE CAPITAL (Continued)

At 31 December 2007, cash and cash equivalents amounted to approximately RMB654,107,000 resulted primarily from receipt of sales proceeds from the disposal of the associate, Chengjian Donghua, which exceed total debt of RMB187,711,000. Accordingly, there was no net debt at 31 December 2007 and calculation of debt-to-equity ratio at 31 December 2007 is not meaningful.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2007, 41% (2006: 41%) of the total domestic and H shares were in public hands.

36. BALANCE SHEET OF THE COMPANY

	2007 **RMB'000**	2006 RMB'000
Property, plant and equipment	**5,762**	5,294
Prepaid land lease payments	**5,693**	5,780
Investments in subsidiaries, net of accumulated impairment losses	**33,558**	3,558
Due from subsidiaries	**482,866**	53,372
Due to a subsidiary	**–**	(73,470)
Investment in an associate	**–**	252,591
Due from an associate	**–**	61,600
Non-pledged time deposits with original maturity of more than three months when acquired	**47,802**	49,263
Cash and cash equivalents	**215,227**	39,516
Other current assets	**4,268**	44,032
Current tax liabilities	**(42,287)**	–
Other current liabilities	**(21,687)**	(18,340)
NET ASSETS	**731,202**	423,196
Share capital	**118,480**	118,480
Reserves *(note 37(b))*	**612,722**	304,716
TOTAL EQUITY	**731,202**	423,196

37. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Capital reserve RMB'000 ((c)(i))	Reserve funds RMB'000 ((c)(ii))	(Accumulated losses)/ retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2006	377,720	52,579	(91,411)	–	338,888
Loss for the year	–	–	(34,172)	–	(34,172)
At 31 December 2006 and 1 January 2007	377,720	52,579	(125,583)	–	304,716
Profit for the year	–	–	308,006	–	308,006
Transfer	–	24,187	(24,187)	–	–
2007 proposed final dividend *(note 14)*	–	–	(23,696)	23,696	–
At 31 December 2007	377,720	76,766	134,540	23,696	612,722

(c) Nature and purpose of reserves

(i) Capital reserve

The capital reserve of the Company represents the aggregate of:

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

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

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

The capital reserve of the Group represents the aggregate of the capital reserve of the Company as stated above and share premium totalled approximately RMB489,000 arising from issue of new shares of Hebei Fire Alarm to its minority interests.

37. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(ii) Reserve funds

Reserve funds comprise statutory surplus reserve and discretionary surplus reserve. In accordance with the laws and regulations in the PRC and articles of association of the Company and its subsidiaries incorporated in the PRC (collectively referred to the "PRC entities"), the PRC entities are required to appropriate 10% of their profit after tax, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC entities' registered share capital, any further appropriation is optional. The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of share capital. The PRC entities may transfer an amount from their profit after tax to the discretionary surplus reserve approved by the shareholders. The discretionary surplus reserve can be utilised to offset prior years' losses of the PRC entities and to distribute to shareholders in the form of bonus issue.

(d) Profit appropriations

Under the PRC Company Law and the respective companies' articles of association, the net profit after tax as reported in the PRC statutory financial statements, prepared in accordance with PRC accounting principles and regulations, can only be distributed as dividends after allowance has been made for the following:

(i) Make-up of prior years' cumulative losses, if any.

(ii) Allocations to the reserve funds as stated in (c)(ii) above.

(iii) Allocations to the discretionary reserve fund if approved by the shareholders. The discretionary reserve fund can be used to offset prior years' losses, if any, and capitalised as the Company's share capital.

38. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company has a share option scheme, pursuant to which the board of directors of the Company may grant options to full-time employees of the Group (including directors of the Company) to subscribe for H shares, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding the shares issued on the exercise of options. The subscription price will be determined by the Company's board of directors, and will not be less than the highest of (i) the nominal value of an H share; (ii) the average of the closing prices of the H shares quoted on the GEM on the five trading days immediately preceding the date of grant; and (iii) the closing price of the H shares quoted on the GEM on the date of grant, which must be a business day. However, employees who are Mainland Chinese nationals shall not be entitled to exercise the option until the current restrictions on these persons from subscribing or dealing in H shares imposed by the laws and regulations in Mainland China have been abolished or removed.

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

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

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

Net assets at the date of disposal were as follows:

	RMB'000
Prepayments, deposits and other receivables	1,511
Bank and cash balances	71
Accruals and other payables	(725)
Net assets disposed of	857
Loss on disposal of a subsidiary	(444)
Total consideration	413

Net cash outflow arising on disposal:

Cash and cash equivalents disposed of	(71)

(b) Major non-cash transaction

During the year ended 31 December 2006, the Group disposed of its entire equity interests in Beida Overseas Education to HK Jade Bird Sci-Tech for a consideration of approximately RMB413,000 by offsetting the same amount due to HK Jade Bird Sci-Tech by the Group.

40. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2007 **RMB'000**	2006 RMB'000
Property, plant and equipment		
Contracted but not provided for	**1,170**	–

41. LEASE COMMITMENTS

At 31 December 2007 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**282**	872
In the second to fifth years inclusive	**–**	286
	282	1,158

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

42. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship
Peking University	The substantial shareholder with significant influence
Beida Jade Bird	A shareholder of the Company and also a company controlled by Peking University
Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited ("Beijing Tianqiao")	Note (i)
HK Jade Bird Sci-Tech	A subsidiary of Beida Jade Bird
Shenzhen Beida Jade Bird Sci-Tech Company Limited ("Shenzhen Jade Bird")	A subsidiary of Beida Jade Bird
Weifang Beida Jade Bird Huaguang Technology Company Limited ("Jade Bird Huaguang") (formerly known as Weifang Beida Jade Bird Huaguang Sci-Tech Company Limited)	A subsidiary of Beida Jade Bird
Guangzhou Beida Jade Bird BIS Company Limited ("Guangzhou BIS")	A company controlled by Peking University
Beijing Beida Jade Bird Software System Company Limited ("Jade Bird Software") (formerly known as Beijing Beida Jade Bird Software System Company)	A shareholder of the Company and also a company controlled by Peking University
Beijing Beida Jade Bird Security System Engineering Technology Company Limited ("Jade Bird Security System")	A subsidiary of Beida Jade Bird
Western Beida Jade Bird Investment Company Limited ("Western Jade Bird")	A subsidiary of Beida Jade Bird
Beijing Western Journey Trading Company Limited Babylon Restaurant ("Beijing Babylon")	A subsidiary of Beida Jade Bird

42. RELATED PARTY TRANSACTIONS (Continued)

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

Name of related party	Relationship
Beijing Jade Bird Huaguang Sci-Tech Company Limited ("Beijing Huaguang")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Information System Company Limited ("Beijing Jade Bird IS")	A subsidiary of Beida Tianqiao (note (i))
Shanghai Beida Jade Bird BIS Company Limited ("Shanghai BIS")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird BIS Company Limited ("Beijing BIS")	A subsidiary of Beida Jade Bird
Beijing Shang Hai Wei Trade Company Limited ("Beijing SHW")	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird Information System Company Limited ("Shanghai Jade Bird IS")	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird BIS Company Limited - Nanjing Branch ("Shanghai BIS NJ Branch")	A subsidiary of Beida Jade Bird
Beijing Beida Jade Bird Sihua Information System Company Limited ("Jade Bird Sihua")	A subsidiary of Beida Tianqiao (note (i))
Beijing Beida Jade Bird Education Company Limited ("Beida Education")	A subsidiary of Beida Jade Bird
Beida Overseas Education	A subsidiary of Beida Jade Bird
Shanghai Beida Jade Bird Fire Equipment Marketing Company Limited ("Shanghai Jade Bird Fire")	A subsidiary of Beida Jade Bird

42. RELATED PARTY TRANSACTIONS (Continued)

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

Name of related party	Relationship
Shanghai Beida Jade Bird Fire Equipment Marketing Company Limited – Nanjing Branch ("Shanghai Jade Bird Fire NJ Branch")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Tianqiao Apparatus Equipment Company Limited ("Beijing Tianqiao Apparatus")	A subsidiary of Beida Tianqiao (note (i))
Guangdong Jade Bird Information System Company Limited ("Guangdong Jade Bird IS")	A subsidiary of Beida Jade Bird
Beijing Jade Bird Security Technology Company Limited ("Beijing Jade Bird Security")	A subsidiary of Beida Jade Bird
Hangzhou Jade Bird Electricity Technology Company Limited ("Hangzhou Jade Bird Electricity")	A subsidiary of Beida Tianqiao (note (i))

Note:

(i) On 20 December 2006, the shares held by Beida Jade Bird in Beijing Tianqiao were invited for bids by Liaoning Province Higher People's Court of the PRC and an unrelated party won the bid and the share transfer was completed in 2007.

During the year ended 31 December 2007, the chairman of the board of directors of Beijing Tianqiao is one of the executive directors of the Company who is considered as a member of the Company's key management personnel under HKFRSs. This executive director has significant influence over Beijing Tianqiao under his status in the board of directors of Beijing Tianqiao. In the opinion of the directors of the Company, Beijing Tianqiao and the related parties controlled by it are considered to be related to the Group for the years ended 31 December 2007 and 2006.

42. RELATED PARTY TRANSACTIONS (Continued)

(b) Peking University is the substantial shareholder with significant influence of the Company. In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with Peking University and the companies and parties under the control of Peking University during the year:

	2007 RMB'000	2006 RMB'000
Sales of embedded systems products to:		
Beijing Tianqiao	**175**	885
Jade Bird Security System	**66**	431
Beijing Jade Bird IS	**855**	2,726
Guangzhou BIS	**30**	120
Shanghai BIS NJ Branch	**342**	236
Beijing BIS	**247**	17
Shanghai Jade Bird IS	**92**	414
Shanghai Jade Bird Fire *(note (i))*	**3,591**	6,484
Shanghai Jade Bird Fire NJ Branch *(note (i))*	**2,243**	–
Beijing Tianqiao Apparatus	**8**	44
Guangdong Jade Bird IS	**94**	176
Beijing Jade Bird Security	**–**	2
Hangzhou Jade Bird Electricity	**–**	1
Jade Bird Sihua	**–**	977
	7,743	12,513
Purchase of inventories:		
Beijing Tianqiao	**–**	176
Beijing SHW	**–**	109
	–	285
Rental expense for an office building charged by Beida Jade Bird *(note (f))*	**665**	734
Disposal of a 100% equity interests in Beida Overseas Education to HK Jade Bird Sci-Tech *(note 39(a))*	**–**	413
Disposal of a 44% equity interests in and a loan receivable from Chengjian Donghua to Jade Bird Security System *(note (ii))*	**697,200**	–

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the usual course of business.

Note:

(i) This transaction constitutes a continuing connected transaction under the GEM Listing Rules, details of which are included in the section headed "Continuing connected transactions and connected transaction" of the Report of the Directors.

(ii) This transaction constitutes a connected transaction under the GEM Listing Rules, details of which are included in the section headed "Continuing connected transactions and connected transaction" of the Report of the Directors.

42. RELATED PARTY TRANSACTIONS (Continued)

(c) Pursuant to the technology licence agreement entered into between the Company and Beijing Tianqiao dated 17 April 2000, Beijing Tianqiao has granted an exclusive licence to the Company for the use of certain GPS technology for a period of 10 years, in return for a royalty fee calculated at a rate of 3% on the total sales of products using this technology. No royalty fee was charged by Beijing Tianqiao to the Group in 2007 and 2006 as the Group did not have any sales of products using this GPS technology in these years.

(d) Pursuant to the JB-CASE Technology licence agreement and trademark licence agreement entered into between the Company and Jade Bird Software dated 17 April 2000, Jade Bird Software granted to the Company a non-exclusive licence to use the JB-CASE technology and certain of its trademarks for a period of 10 years for nil consideration.

(e) During the year, the Group purchased certain computer products amounting to RMB63,817,000 (2006: RMB51,812,000) and RMB9,342,000 (2006: RMB Nil) which were handled by Beijing Tianqiao and Beijing BIS on behalf of the Group at no charge respectively.

(f) The Company has entered into an office building operating lease agreement with Beida Jade Bird, with a right of renewal exercisable by the Company. Pursuant to this agreement, the expiry date of this lease agreement is 1 April 2006. During the years ended 31 December 2007 and 2006 the Company has not renewed the lease agreement Beida Jade Bird (note (b)).

42. RELATED PARTY TRANSACTIONS (Continued)

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

	2007 RMB'000	2006 RMB'000
Due from an associate:		
Chengjian Donghua	–	61,600
Trade receivables from related parties:		
Jade Bird Security System	46	21
Beijing Jade Bird IS	–	25
Guangzhou BIS	–	29
Jade Bird Sihua	610	610
Beijing BIS	58	–
Beijing Tianqiao	36	–
Shanghai Jade Bird Fire	1,656	–
Shanghai Jade Bird Fire NJ Branch	295	–
Shanghai BIS NJ Branch	23	–
	2,724	685
Prepayments, deposits and other receivables from related parties:		
Beda Jade Bird	–	47
Beijing BIS	10	100
	10	147
Due from a shareholder:		
Beida Jade Bird	47	94
Due from related parties:		
Beijing Tianqiao	298	298
Beijing Huaguang	2	2
Beida Babylon	8	8
Jade Bird Sihua	27	27
Beijing BIS	53	55
	388	390

42. RELATED PARTY TRANSACTIONS (Continued)

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

	2007 **RMB'000**	2006 RMB'000
Trade payables to related parties:		
Beijing Tianqiao	**138**	138
Beijing Jade Bird IS	**–**	72
Western Jade Bird	**16**	16
	154	226
Advances from related parties:		
Beijing Tianqiao	**150**	150
Guangzhou BIS	**–**	1,000
Shanghai BIS	**5**	5
	155	1,155
Due to a shareholder:		
Beida Jade Bird	**1,050**	612
Due to related parties:		
Beijing Tianqiao	**529**	705
Beijing Jade Bird IS	**–**	161
Beida Education	**159**	74
Shenzhen Jade Bird	**355**	355
Beida Overseas Education	**942**	1,010
Guangzhou Jade Bird IS	**7**	–
Jade Bird Huaguang	**24**	–
Peking University	**13**	–
	2,029	2,305

(h) During the year Beijing BIS has advanced an unsecured and interest-free loan of RMB500,000 (2006: RMB Nil) to the Group. The advance has been fully repaid during the year.

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

	2007 **RMB'000**	2006 RMB'000
Short term employee benefits	**2,758**	1,303
Post-employment benefits	**51**	48
	2,809	1,351

Further details of directors' and supervisors' emoluments are included in note 12 to these financial statements.

43. EVENTS AFTER THE BALANCE SHEET DATE

(i) On 23 January 2008, the Group and an unrelated third party entered into a joint venture agreement pursuant to which both parties agreed to establish a joint venture company for the research, development, manufacture, marketing and sale of fire detection, safety and surveillance products. Amoung the joint venture company's registered capital of RMB50 million (the "Registered Capital"), the Group is required to inject RMB35 million in terms of certain property, plant and equipment of the Group representing 70% of the Registered Capital. The unrelated third party is required to inject an equivalent amount of RMB15 million (in terms of USD) in cash, representing 30% of the Registered Capital. The term of the joint venture company is 25 years starting from the date of issuance of business license. Each party is eligible to share profits of the joint venture company in accordance with its equity interest in Registered Capital. After completion of Registered Capital contribution and inclusion of the joint venture company in the List of Fire Fighting Product Manufacturer of China Certification Centre for Fire Products of The Ministry of Public Security of the PRC, the Group conditionally agrees to sell and the unrelated third party conditionally agrees to buy 21% equity interest in the joint venture company at a consideration of RMB20 million.

(ii) On 22 February 2008, the Group, an unrelated fund management company and an unrelated fund manager have entered into a limited partnership agreement, pursuant to which the Group, would make an aggregate commitment of USD50 million into an investment fund (the "Fund"), representing 50% of the committed fund size of USD100 million and the unrelated fund management company would make an aggregate commitment of the balance of USD50 million.

The fund has a committed period of three years. The unrelated fund manager is the sole general partner of the fund and solely responsible to conduct investments for the Fund. The purpose of the Fund is to seek capital gains to its investors.

(iii) On 7 March 2008, the Group entered into a share transfer agreement with an unrelated party to which the Group agreed to accquire 75% equity interest of a wholly-owned subsidiary of the unrelated party (the "Acquiree") for a cash consideration of RMB2,369,000. The Acquiree is a company incorporated with limited liability in the PRC and is engaged in design, manufacture and sales of fire alarm system, security and fire equipment products and relating installation and consultation service. As the acquisition is not yet completed up to the date of issue of the financial statements, it is impracticable at this moment to disclose further information about the acquisition.

(iv) Subsequent to the balance sheet date, the Group has paid a lease charge of RMB30,000,000 to a local government of Hunan Province for leasing of a car terminal and tourist information centre proposed to be constructed in Nanyue District, Hengshan City, Hunan Province, the PRC (the "Hengshan Terminal") by the Group for a six-year term commencing from the completion of construction of Hengshan Terminal. Up to the date of issue of the financial statements, construction work of Hengshan Terminal has not commenced. Hengshan Terminal is expected to commence operation fully in 2009.

44. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2007 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up/ registered capital	Percentage of equity interests Direct	Percentage of equity interests Indirect	Principal activities
Beida Jade Bird Universal Sci-Tech (Cayman) Development Company Limited	Cayman Islands/ Hong Kong	10,000 ordinary shares of USD1 each	100%	–	Sale of computer products and related products
Hebei Fire Alarm	Hebei Province, the PRC	Registered capital of RMB11,500,000	65%	–	Technology research, development, manufacture and sale of fire alarm system products
Hengyang Nanyue Xiaoxiang Tourism Development Limited	Hunan, the PRC	Registered capital of RMB200,000,000	30%	30%	Exploration and development of travel and leisure business and relating infrastructure construction
Wuhan Beida Jade Bird Netsoft Company Limited	Wuhan, the PRC	Registered capital of RMB10,000,000	58%	–	Research, development, production and sale of network management products, and provision of network systems integration services

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

45. COMPARATIVE FIGURES

The expenses presented in the consolidated income statement have been changed from the classification by nature to classification by function as the directors of the Company consider that the new presentation is more appropriate to the financial statements following the diversification of the Group's business during the year.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2008.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2007 annual general meeting ("AGM") of Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("the Company") will be held at Meeting Room 312, 3rd Floor, Beida Jade Bird Building, No.207 Chengfu Road, Haidian District, Beijing 100871, the PRC on Thursday, 22 May 2008 at 10:30 a.m. for the following purposes:–

I. As ordinary resolutions:

"**THAT**

1. The report of the Directors for the year ended 31 December 2007 be approved;

2. The report of the Supervisory Committee for the year ended 31 December 2007 be approved;

3. The audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2007 be approved;

4. The proposed final dividend of RMB2 cents per ordinary share for the year ended 31 December 2007 be approved;

5. The appropriation to statutory surplus reserve for the year ended 31 December 2007 be approved;

6. The proposal for appointment of RSM Nelson Wheeler as auditor for the year ended 31 December 2008 and authorisation to the Directors/Remuneration Committee to fix its remuneration be approved; and

7. The remuneration proposals for Directors and supervisors of the Company for the year ended 31 December 2008 be approved."

II. As special resolutions:

1 "**THAT**

Beijing Beida Jade Bird Software System Co., Ltd. and Beijing Beida Yu Huan Microelectronics System Co., Ltd. agreed to transfer its 110,000,000 shares and 85,000,000 shares in the Company to Hang Zhou Beida Jade Bird Sci-Tech Co., Ltd., respectively. Article 17 of the Articles of Associations of the Company to be amended to reflect the above change in shareholdings.

Article 17 Subject to the approval of the companies approving department authorized by the State Council, the Company issued a total of 1,184,800,000 ordinary shares, of which 700,000,000 ordinary shares were issued to the promoter of the Company:

Dynamic Win Assets Limited subscribed for 220,000,000 shares, representing 31.429% of the total number of ordinary shares that may be issued at the establishment of the Company; …… Dynamic Win Assets Limited entered into an agreement on 11 March 2004 to transfer its promoter shares of 14,586,000 shares to New View Venture Limited; the promoter shares held by Dynamic Win Assets Limited decreased from 220,000,000 shares to 205,414,000 shares, representing 29% of the total number of ordinary shares that may be issued at the establishment of the Company; the promoter shares held by New View Venture Limited increased from 70,000,000 shares to 84,586,000 shares, representing 12.084% of the total number of ordinary shares that may be issued at the establishment of the Company;

be amended to:

Article 17 Subject to the approval of the companies approving department authorized by the State Council, the Company issued a total of 1,184,800,000 ordinary shares, of which 700,000,000 ordinary shares were issued to the promoter of the Company:

Dynamic Win Assets Limited subscribed for 220,000,000 shares, representing 31.429% of the total number of ordinary shares that may be issued at the establishment of the Company; …… Dynamic Win Assets Limited entered into an agreement on 11 March 2004 to transfer its promoter shares of 14,586,000 shares to New View Venture Limited; the promoter shares held by Dynamic Win Assets Limited decreased from 220,000,000 shares to 205,414,000 shares, representing 29% of the total number of ordinary shares that may be issued at the establishment of the Company; the promoter shares held by New View Venture Limited increased from 70,000,000 shares to 84,586,000 shares, representing 12.084% of the total number of ordinary shares that may be issued at the establishment of the Company;

Beijing Beida Yu Huan Microelectronics System Co., Ltd. entered into an agreement on 18 January 2008 to transfer its promoter shares of 85,000,000 shares to Hang Zhou Beida Jade Bird Sci-Tech Company Limited; Beijing Beida Jade Bird Software System Co., Ltd entered into an agreement on 18 January 2008 to transfer its promoter shares of 110,000,000 shares to Hang Zhou Beida Jade Bird Sci-Tech Co., Ltd.; Hang Zhou Beida Jade Bird Sci-Tech Company Limited holds a total of 195,000,000 promoter shares, representing 27.857% of the total number of ordinary shares that may be issued at the establishment of the Company"

Note: The amendment to the Articles of Associations is subject to the approval by the State-owned Assets Supervision and Administration Commission of the State Council of the transfer of shares from Beijing Beida Yu Huan Microelectronics System Co., Ltd. and Beijing Beida Jade Bird Software System Co., Ltd. to Hang Zhou Beida Jade Bird Sci-Tech Co., Ltd..

2 "**THAT**

Pursuant to prevailing Section 167 of the Company Law of the People's Republic of China, a company is only required to allocate funds to the statutory surplus reserve. Accordingly, Articles 151 and 153 to be amended and Article 156 to be deleted:

Article 151 The profit after tax is allocated in the following order:

1. cover losses;
2. make allocations to the statutory surplus reserve;
3. make allocations to the **statutory public welfare fund;**
4. make allocations to the discretionary surplus reserve;
5. distribute dividends to ordinary shareholders.

be amended to:

Article 151 The profit after tax is allocated in the following order:

1. cover losses;
2. make allocations to the statutory surplus reserve;
3. make allocations to the discretionary surplus reserve;
4. distribute dividends to ordinary shareholders.

Article 153 When the Company allocates its profit after tax of the year, it should transfer 10% and 5-10% of its profit to the statutory surplus reserve and **statutory public welfare fund,** respectively. If the accumulated amount of its statutory surplus reserve reaches more than 50% of its registered capital, the Company can choose not to make further allocations.

In the event that there is insufficient statutory surplus reserve to cover the loss of the Company of the previous year, the profit of the current year should be used to offset the loss before any transfer is made to the statutory surplus reserve and the **statutory public welfare fund** pursuant to rule above.

After making allocations to the statutory surplus reserve, the remaining profit after tax may be transferred to the discretionary surplus reserve subject to the decision of the general meeting.

The remaining profit after offsetting its loss and allocating to the surplus reserve and **statutory public welfare fund** shall be distributed to the shareholders in proportion to their respective shareholding.

In the event that the general meeting or the board of Directors violates the rule set out above, any profit distributed to the shareholders prior to offsetting loss of the Company and allocating to the statutory surplus reserve and the **statutory public welfare fund** shall be returned to the Company.

be amended to:

Article 153 When the Company allocates its profit after tax of the year, it should transfer 10% of its profit to the statutory surplus reserve. If the accumulated amount of its statutory surplus reserve reaches more than 50% of its registered capital, the Company can choose not to make further allocations.

In the event that there is insufficient statutory surplus reserve to cover the loss of the Company of the previous year, the profit of the current year should be used to offset the loss before any transfer is made to the statutory surplus reserve pursuant to rule above.

After making allocations to the statutory surplus reserve, the remaining profit after tax may be transferred to the discretionary surplus reserve subject to the decision of the general meeting.

The remaining profit after offsetting its loss and allocating to the surplus reserve shall be distributed to the shareholders in proportion to their respective shareholding.

In the event that the general meeting or the board violates the rule set out above, any profit distributed to the shareholders prior to offsetting loss of the Company and allocating to the statutory surplus reserve shall be returned to the Company.

Delete: Article 156

The statutory public welfare fund of the Company should only be used for the collective benefits of its staff."

3. "**THAT**

By suggestion of the Hong Kong Registrars Limited, Article 40 be amended as follow:

Article 40 share certificates shall be signed by the Chairman. Where the stock exchanges on which shares of the Company are listed require the share certificates to be signed by member of senior management, the share certificates shall also be signed by such member of senior management. The share certificates shall take effect after being affixed with the Company's Securities Seal provided that such Seal shall only be affixed with the authority of the Board of Directors. The signatures of the Chairman or other member of senior management of the Company can also be applied to the share certificates by printing.

be amended to:

Article 40 share certificates shall be signed by the Chairman. Where the stock exchanges on which shares of the Company are listed require the share certificates to be signed by member of senior management, the share certificates shall also be signed by such member of senior management. The share certificates shall take effect after being affixed with the Company's Securities Seal **or affixed with the Company's Securities Seal by printing** provided that such Securities Seal shall only be affixed with the authority of the Board of Directors. The signatures of the Chairman or other member of senior management of the Company can also be applied to the share certificates by printing."

4. "**THAT**

(1) there be granted to the Board of Directors of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors of the Company may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

(b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of Directors of the Company shall not exceed:

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

(ii) 20 per cent of the aggregate nominal amount of H Shares of the Company in issue.

in each case as at the date of this Resolution; and

(c) the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

For the purposes of this Resolution:

"Domestic Shares" means domestic invested shares in the share capital of the Company, of par value RMB0.1 each, which are held in Renminbi by PRC investors and promoters of the Company;

"H Shares" means the overseas-listed foreign invested shares in the share capital of the Company with a par value RMB0.1 each which are subscribed for and traded in Hong Kong dollars;

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(i) the conclusion of the next AGM of the Company following the passing of this Resolution; or

(ii) the expiration of the 12-month period following the passing of this Resolution; or

(iii) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

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

(a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement);

(b) to determine the use of proceeds and to make all necessary filings and registrations with the relevant the PRC, Hong Kong and other authorities; and

(c) to increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, to register the increased capital with the relevant authorities in the PRC and to make such amendments to the Articles of Association of the Company as it thinks fit so as to reflect the increase in registered capital of the Company."

By order of the Board
Xu Zhen Dong
Chairman

Beijing, the PRC
25 March 2008

Notes:

(A) The register of holders of H Shares will be closed from 23 April 2008 (Wednesday) to 22 May 2008 (Thursday) (both days inclusive) during which period no transfer of H shares will be registered. Any holder of the H Shares and whose name appearing in the Company's register of holders of H Shares with Hong Kong Registrars Limited at 4:30 p.m. on 22 April 2008 (Tuesday) and have completed the registration process, will be entitled to attend the AGM.

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

(B) Holders of Domestic Shares or H Shares who intend to attend the AGM must complete the reply slips for attending the AGM and return them to Hong Kong Registrars Limited at the address set out above (for holders of H Shares) or to the place of business of the Company in Beijing (for Domestic Shares) not later than 20 days before the date of the AGM, i.e. no later than 4:30 p.m. on 2 May 2008 (Friday).

The place of business of the Company in Beijing is as follows:
3rd Floor, Beida Jade Bird Building, No. 207 Chengfu Road, Haidian District, Beijing 100871, the PRC (Fax no: 86-10-6275-8434)

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

(D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.

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

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

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

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

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