



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

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

ANNUAL RESULTS ANNOUNCEMENT

For the year ended 31 December 2002

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

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



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Highlights

- **Turnover is approximately RMB250 million, an increase of 101% as compared to last year.**
- **Operating profit is approximately RMB64 million, an increase of 79% as compared to last year.**
- **Earnings before interest, tax, depreciation, amortisation and minority interest is approximately RMB73 million, an increase of 78% as compared to last year.**
- **Profit attributable to shareholders is approximately RMB43 million, an increase of 14% as compared to last year.**
- **Earnings per share is RMB4.4 cents, an increase of 13% as compared to last year.**
- **The Company has acquired 51% equity interest of Beijing Jade Bird Haodi Electric System Company Limited which was engaged in the development and manufacture of automatic remote meter-reading systems in February 2002. The consideration of the acquisition was RMB10 million.**
- **The Company has established a DVR Business Unit for promoting the application of digital video recorder technology to public security and business administration.**
- **The Company has established Beijing Beida Jade Bird Silicon Innovation Company Limited which was engaged in the research, development, production and sales of integrated circuits in August 2002 with an investment amount of RMB6 million, representing 60% of its equity interest. The Company has restructured the business of security integrated circuits so as to enhance the future development of integrated circuits business.**
- **The Company has established Wuhan Beida Jade Bird Netsoft Company Limited which was engaged in the research and development network management products and provision of network system integration services by end of September 2002 with an investment amount of RMB4.2 million, representing 51% of its equity interest so as to develop the market in the middle part of China and to expand various product types.**
- **Jade Bird Gateway Firewall, JB-FW V2.2, has been awarded the Golden Prize by the Committee of the 2002 China International Software Exposition and Technology Seminar. The Golden Prize is one of the highest recognitions in the software industry.**

CHAIRMAN'S STATEMENT

For the year 2002, the results from various business segments of the Group had achieved a stable growth, especially for the network security products and fire alarm products.

In recent years, network security has been more and more important to government departments and large business enterprises in China and hence, the resources investing in network security are increasing. Currently, the Company has been selected by certain government departments and major Chinese business enterprises, such as Public Security Ministry and China Industrial and Commercial Bank, as one of the few on-list suppliers for provision of network security products. We estimate that the results from network security products in year 2003 would be very promising.

In addition to the self-developed wireless fire alarm system, the Company has also acquired Hebei Beida Jade Bird Universal Fire Alarm Device Company Limited which has a very obvious advancement in its business. Thus, the revenue from the fire alarm products and the fire prevention engineering project has also increased. The markets in Beijing, Shanghai, Guangdong, Zhejiang provinces were also developed.

In June 2002, the Company has formally obtained the official approval from the relevant China approving authorities for the investment in Semiconductor Manufacturing International Corporation ("SMIC") and has completed the total investment. Since semiconductor industry in China is still at the start up stage with tremendous potential for development, we believe that the business of SMIC will be stable and optimistic. At present, a number of world famous foundries are planning to enter the China market. The pioneer, SMIC, would definitely have the advantages to become the leader of the China market.

Apart from the businesses mentioned above, the Company has acquired and established some other businesses relating to embedded technology. They included (i) "Beijing Jade Bird Haodi Electric System Company Limited" engaging in the development and research of remote automatic meter-reading systems; (ii) "Beijing Beida Jade Bird Silicon Innovation Company Limited" engaging in the research and development of integrated circuits; (iii) "Wuhan Beida Jade Bird Netsoft Company Limited" engaging in the development and sales of network management software and hardware as well as network system integration projects; and (iv) "DVR Business Unit" engaging in the manufacture and promotion of the application of digital video recorder technology in public security and corporate management.

Moreover, the Group has actively participated in various major exhibitions and technology exchange seminars, such as "China Beijing International Science and Technology Industry Exposition", "The Fourth China Hi-Tech Fair" and "The Ninth China International Fire Prevention Equipment Technology Exchange Exhibition" etc. We hope that participation in such activities would not only increase the brand name awareness of the Group's products in the market but also provide certain contribution to China's hi-tech industry. Then, China's hi-tech products would become more competitive in the international market.

In view of the global economic depression, the management will adopt a more conservative operating strategy. In the coming year, we will further enhance the return from various business activities, reduce the operating costs and develop more businesses with future potentials so as to increase the profitability of the Group.

RESULTS

The Directors have the pleasure of presenting the audited consolidated results of the Company and its subsidiaries (together “the Group”) for the year ended 31 December 2002, together with the comparative figures for the year ended 31 December 2001, as follows:

	Note	2002 RMB'000	2001 RMB'000
TURNOVER	2	250,463	124,617
Other revenue	2	1,260	1,260
Operating expenses:			
Materials and equipment		(138,334)	(51,904)
Employment costs		(20,595)	(17,876)
Depreciation of property, plant and equipment		(3,494)	(4,235)
Amortisation of goodwill and intangible assets		(5,619)	(875)
Other operating expenses		(20,113)	(15,456)
Total operating expenses		(188,155)	(90,346)
PROFIT FROM OPERATING ACTIVITIES		63,568	35,531
Finance income / (cost)			
Interest income		4,851	12,265
Interest expense		(24,268)	(11,228)
PROFIT BEFORE TAX		44,151	36,568
Tax	3	(1,300)	-
PROFIT BEFORE MINORITY INTERESTS		42,851	36,568
Minority interests		(205)	942
NET PROFIT FROM ORDINARY ACTIVITIES ATTIBUTABLE TO SHAREHOLDERS		42,646	37,510
Proposed final dividend		-	4,820
EARNINGS PER SHARE – Basic (RMB cents)	4	4.4	3.9

1. Principal Activities and Basis of Presentation

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

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

2. Turnover and Other Revenue

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

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
<u>Turnover</u>		
Sales of embedded systems and related products	85,388	36,956
Sales of computer products	108,246	42,211
Provision of total solution services	56,829	45,450
	<u>250,463</u>	<u>124,617</u>
 <u>Other revenue</u>		
Rental income	<u>1,260</u>	<u>1,260</u>

3. Taxation

Hong Kong profits tax is charged at the rate of 16% (2001 : 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

	<u>2002</u> RMB'000	<u>2001</u> RMB'000
Hong Kong profits tax:	-	-
Overseas income taxes:	-	-
PRC corporate income tax:		
Current income taxes	<u>1,300</u>	<u>-</u>
	<u>1,300</u>	<u>-</u>

There was no unprovided deferred tax in respect of the year (2001: Nil).

4. Earnings Per Share

The calculation of earnings per share for the year ended 31 December 2002 were based on the profit attributable to shareholders of approximately RMB42,646,000 (2001 – RMB37,510,000) and on the weighted average number of 964,000,000 shares in issue during the year.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend (2001 – RMB4,820,000).

CLOSURE OF H SHARES REGISTER

The H shares register of shareholders of the Company will be closed from 24 May 2003 to 25 June 2003 (both days inclusive), during which no transfer of H shares will be effected.

MOVEMENT IN GROUP RESERVES

	Capital reserve	Statutory reserve funds	Proposed dividend	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2000 and 1 January 2001	251,271	4,664	4,820	14,152	274,907
Profit for the year	-	-	-	37,510	37,510
Transfer to statutory reserve fund	-	5,678	-	(5,678)	-
Settlement of dividends	-	-	(4,820)	-	(4,820)
Proposed final dividends	-	-	4,820	(4,820)	-
As at 31 December 2001 and 1 January 2002	251,271	10,342	4,820	41,164	307,597
Profit for the year	-	-	-	42,646	42,646
Transfer to statutory reserve funds	-	6,307	-	(6,307)	-
Settlement of dividend	-	-	(4,820)	-	(4,820)
As at 31 December 2002	<u>251,271</u>	<u>16,649</u>	<u>-</u>	<u>77,503</u>	<u>345,423</u>

In accordance with the Company's articles of association, the Directors proposed appropriations of 10% and 5% of net profit to statutory surplus reserve and statutory public welfare fund, respectively. For the year ended 31 December 2002, the appropriations amounted to RMB4,205,000 (2001 – RMB3,785,000) and RMB2,102,000 (2001 – RMB1,893,000) for statutory surplus reserve and statutory welfare fund, respectively.

SEGMENT INFORMATION

(a) Business segments

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

	2002								2001	
	NET	WFAS	ASIC	GPS	IC	DVR	RMR	Computer	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE										
Sales to external customers	56,452	36,339	21,571	5,627	7,863	6,931	7,434	108,246	250,463	124,617
RESULTS										
Segment results	34,562	16,958	4,518	3,890	4,987	2,701	187	4,750	72,553	45,920
Interest income									4,851	12,265
Interest expense									(24,268)	(11,228)
Unallocated corporate expenses									(8,985)	(10,389)
Profit before tax									44,151	36,568
Tax									(1,300)	-
Profit before minority interests									42,851	36,568
Minority interests									(205)	942
Net profit from ordinary activities attributable to shareholders									42,646	37,510
ASSETS										
Segment assets	43,022	43,932	17,181	1,642	6,139	4,624	7,952	28,075	152,567	106,403
Less: Intersegment assets	-	-	(5,480)	-	-	-	-	-	(5,480)	(3,050)
Unallocated corporate assets									730,868	728,379
Total assets									877,955	831,732
LIABILITIES										
Segment liabilities	2,884	23,497	2,285	2,485	900	3,113	5,635	21,876	62,675	34,353
Less: Intersegment liabilities	(13)	(15,044)	(212)	-	-	-	(500)	-	(15,769)	(16,000)
Unallocated corporate liabilities									380,466	407,464
Total liabilities									427,372	425,817
OTHER SEGMENT INFORMATION										
Capital expenditure	237	1,096	-	-	20	86	3	1,248	2,690	17,186
Unallocated capital expenditure	-	-	-	-	-	-	-	-	-	1,099
Depreciation for property, plant and equipment	861	373	1,895	102	32	23	42	166	3,494	3,040
Unallocated depreciation for property, plant and equipment	-	-	-	-	-	-	-	-	-	1,195
Amortisation of goodwill	110	3,500	-	-	-	385	1,564	-	5,559	875
Amortisation of intangible assets	60	-	-	-	-	-	-	-	60	-
Provision for doubtful debt	356	129	-	-	112	203	2	3,624	4,426	2,335
Provision for obsolete and slow-moving inventories	-	-	208	-	-	-	-	-	208	1,145

(b) Geographical segments

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

	PRC		Hong Kong		Total	
	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Revenue*</u>						
Sales to external customers	<u>184,653</u>	<u>91,142</u>	<u>65,990</u>	<u>33,475</u>	<u>250,463</u>	<u>124,617</u>
<u>Other information</u>						
Segment assets	<u>861,673</u>	<u>792,064</u>	<u>16,282</u>	<u>39,308</u>	<u>877,955</u>	<u>831,372</u>
Capital expenditure	<u>1,910</u>	<u>18,274</u>	<u>780</u>	<u>11</u>	<u>2,690</u>	<u>18,285</u>

* Revenue by geographical location is determined mainly on the basis of the destination of delivery of merchandise and rendering of services.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The audited consolidated turnover of the Group for the year ended 31 December 2002 amounted to RMB250,463,000, representing an increase of RMB125,846,000 and a remarkable growth of 101% over year 2001.

The increase in turnover was mainly contributed from the sales of network security products, wireless fire alarm products and fire alarm projects. Moreover, the sales of computer products, being a value added services to the provision of total solution services business, also increased substantially in year 2002.

For the year ended 31 December 2002, approximately 34%, 43% and 23% of the turnover were derived from the sales of embedded system products and related products, sales of computer products and the provision of total solution services respectively.

Operating Profit

The operating profit of the Group for the year ended 31 December 2002 amounted to RMB63,568,000, representing a significant increase of RMB28,037,000 or 79% as compared to year 2001.

The increase in operating profit was mainly due to the increase in sales of network security products and fire alarm products.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders and earnings per share for the year ended 31 December 2002 were RMB42,646,000 and RMB4.4 cents respectively, representing an increase of 14% and 13% respectively.

Due to the continuous downward adjustment of the bank deposit interest rate in year 2002, together with the reduction in bank balances and payment of short term bank loan interest of approximately RMB24 million, which was a double increase as compared to prior year, resulting from the investment in SMIC, the percentage increase in profit attributable to shareholders was less than the increase in operating profit.

Liquidity and Financial Resources

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

As at 31 December 2002, the Group had cash on hand of RMB207 million and short term bank loans totalling RMB363 million. Included in the short term bank loans, an amount of RMB360 million was the short term bank loan for financing the investment in SMIC. The Group's short term bank loan of RMB3,060,000 was secured by the Group's fixed assets with a net book value of RMB1,268,000.

In January 2003, the Company had early repaid the above-mentioned short term bank loan of RMB360,000,000 and therefore borrowed a foreign currency short term bank loan of USD47.5 million (approximately RMB393 million) with a lower interest rate. The aforesaid USD short term bank loan was guaranteed by a shareholder of the Company and a subsidiary of Peking University.

On 10 December 2002, the Company obtained an extension of the specific mandate from the shareholders to place 140,000,000 new H shares. If there is an improvement in the capital market for fund raising activities, the Company will exercise the specific mandate. The proceeds from the placing will then be used for repaying the above mentioned USD short term bank loan.

BUSINESS REVIEW

Network Security System

The Company has developed series of firewall, encryption card/machine and security assessment products and proceeded to the development of the design of security system and total solution as well as security assessment and services. The JB-FW1 100/1000 firewall products have been developed with a break through in the total line-speed throughput and has distinct advantages in functions and pricing. The products have also been selected by government departments (such as State tax system and transportation etc.) and financial institutes (such as China People's Bank, China Construction Bank and China Agricultural Bank etc.) as the on-list information system products and hence, recognized as one of the most competitive security products.

The encryption rate of the SJY01 encryption equipment was one of the advanced classes in China. The equipment has also passed the examination by the relevant government departments and had increasing sales. For information security integration and services, the Company has cooperated with certain major security product manufacturers such as Symantec and Checkpoint etc. so as to procure more total solution projects in sizable enterprises like petrol and aeronautical industries.

In addition, the Company has been appointed to develop several important State development projects like "Information System Security Level Assessment Tool", "Electronic Information Evidence Review System", "Network Attack and Protection Training and Experiment Platform", "Information System Bug Detection" etc.

The Company has established Wuhan Beida Jade Bird Netsoft Company Limited ("Jade Bird Netsoft") in September. Its principal activities were research, development, production and sales of network management computer software and hardware products, network system and communication equipment, as well as the provision of network system integration engineering services. With the establishment of Jade Bird Netsoft, the market share in the middle part of China would be further developed and the product types would also be further expanded.

Jade Bird Netsoft has participated in several exhibitions such as “2002 Beijing International Communication Equipment Technology Exhibition”, “China Hi-Tech Fair” etc. so as to enhance the Jade Bird Netsoft product brand name. Jade Bird Netsoft has contracted with Hubei Radio Broadcasting and Television Bureau, China Unicom – Hubei Branch, Jiangxi Province Information Center etc. for supply of goods. Jade Bird Netsoft has also signed some long term cooperation agreements with several famous hardware manufacturers such as TCL Network, Legend Memory Network and Taiwan LOOP etc. for provision of network management software for their products.

For the year ended 31 December 2002, the turnover and profit contributed from the network security products were RMB56,452,000 and RMB RMB34,562,000 respectively.

Wireless Fire Alarm System

The Company has developed and improved several types of products, including LN1010 fire alarm controller with extended functions, the program upgrade for the whole series of controllers, model encoder (new type), ultraviolet flame detector, addressable type flammable gas detector, cabinet type controllers and floor display and wireless fire alarm system etc.

The Company has mainly manufactured the automatic fire alarm system for civil use as well as special type fire detector, communication technology and products as supplementary products to meet various needs of the market and to develop different sales channels.

In addition, the examination reports of JB-QB-JBF-11S/CE2 gas type fire extinguisher, JB-TG-JBF-11S fire alarm controller (linkage type), JBF-191F/D fire display products have been awarded by the National Fire Control Electronic Product Quality Testing Center for their stable qualities.

For the year ended 31 December 2002, the turnover and profit contributed from the WFAS products were RMB36,339,000 and RMB16,958,000 respectively.

Security ICs

The Company has completed the chip layout design and chip testing program design, and primarily established the IP library. The Company has also continued the production, promotion and sale of the 1st to 3rd generation security ICs. The major customers were government departments.

The Company has established Beijing Beida Jade Bird Silicon Innovation Company Limited (“BJSI”) in August and has restructured the business of security integrated circuits so as to enhance the future development. BJSI was engaged in the research, development, production, manufacturing and sales of the integrated circuits products. BJSI has developed the technological cooperation with certain international IC design companies. The design technology has already been reached to 0.18um and being proceeded to 0.13um. BJSI has also developed the IP core based on the 0.18um advanced production technology and provided certain technological supports to other IC design companies.

For the year ended 31 December 2002, the turnover and profit contributed from the security ICs products were RMB21,571,000 and RMB4,518,000 respectively.

GPS Application System

The Company has started the design and basic testing of multiple base station system of the 3rd generation GPS application system and the improvement in the technological design of the existing single base system. The Company has also commenced the research of GPS system developed based on the GPRS communication mode. The production of JB230M and JB420M products has been commenced and the JB350M product was under trail production.

For the year ended 31 December 2002, the turnover and profit contributed from the GPS application systems were RMB5,627,000 and RMB3,890,000 respectively.

Smart Card Application System

The Company has developed the application of smart card in network and management of smart card in the Internet. The Company has also developed the smart card precursory equipment for network. Moreover, the Company has installed and tested the smart card application system for security management in certain projects such as student card management system of Northeast Agriculture University, library entrance system of Northeast Normal University, the “All-in-One” campus card system and the digital security system in armories of Beijing military area.

For the year ended 31 December 2002, the turnover and profit contributed from the smart card application system products were RMB7,863,000 and RMB4,987,000 respectively.

Digital Video Recorder

The Company has established a DVR Business Unit for the manufacture and sales of video monitoring system based on digital video recording technology. Based on the MPEGI, MPEGII and MPEG4 compression technology, certain DVR products including the PC type, IPC type and embedded type etc. were developed. Moreover, the “JBDVR T Examination Report” and “JBDVR I Examination Report” have been awarded from the Public Security Ministry.

In addition, the Company has developed the machine-control DVR products based on the MPEGI and MPEG4 compression technology. The Company has realized the technological improvements in 1-32 channel audio-visual compound, stable and clear pictures as well as the quick retrieval of recording information, reporting record and duty record etc. The two-way and multiple searching function for recording have also been developed. Functions like adjustable picture quality, electronic map and automatic alarm, multiple password protection were also incorporated in the products. The DVR system has also been enhanced with the functions of transmission of information through Internet and multiple checkpoints, remote recording, remote alarm and remote control.

The Company's DVR system has been applied extensively in government departments, financial institutes, large enterprises, hotels and residential areas etc. The Company has also expanded the sales network to more than twenty advanced economic provinces such as Guangdong, Sichuan, Shanghai, Tianjin, Beijing and the Northeast Three Provinces etc.

For the year ended 31 December 2002, the turnover and profit contributed from the DVR products were RMB6,931,000 and RMB2,701,000 respectively.

Remote Meter-reading System

The Company has acquired Beijing Jade Bird Haodi Electric System Company Limited ('Jade Bird Haodi') which was engaged in the development and manufacture of remote automatic meter-reading systems. Its major products were low-voltage remote meter-reading system, charges meter-reading system, medium voltage remote testing system, small district intelligent meter-reading system and medium voltage small district wireless meter-reading system.

Jade Bird Haodi has developed the data acquisition and supervisory system for distribution transformer which has been tested in the laboratory and has prepared for the commencement of the small batch production of medium voltage products. Jade Bird Haodi currently has domestic users from Shandong, Jiangsu, Liaoning, Inner Mongolia, Guangdong, Guizhou, Shanxi, Henan and other provinces.

For the year ended 31 December 2002, the turnover and profit contributed from the remote meter-reading system were RMB7,434,000 and RMB187,000 respectively.

Semiconductor Manufacturing International Corporation ("SMIC")

The Company has completed the investment in SMIC, which in turn owned 100% interest in Semiconductor Manufacturing International (Shanghai) Corporation ('SMIC Shanghai'). SMIC Shanghai is China's first pure-play commercial IC foundry to achieve volume production for 8" wafers, and provide wafer fabrication services at 0.25 μ m and finer line technology and encompasses a comprehensive intellectual property (IP) library, design support, mask making and wafer testing.

SMIC has established several alliances with key industrial players such as Chartered from Singapore, Toshiba and Fujitsu from Japan and IMEC from Belgium and signed major foundry agreement with Infineon Technologies AG from Germany. With the cooperation with such international foundries, SMIC has acquired certain advanced technology in 0.18 micron design rules, 0.13 micron DRAM stacked technology, 0.15 micron low power SRAM process technology, 0.14 micron DRAM trench technology etc. It showed that SMIC has already been proceeding to be one of the world leading semiconductor manufacturers.

SMIC has been awarded the ISO14001 and ISO9001 certification for its world recognised product quality. At present, SMIC Shanghai has reached a production level of 30,000 wafers per month.

Staff

At present, the Group has employed approximately 220 employees. Among the employees, 6 of them possess the doctor degree, 23 of them possess the master degree and 113 of them possess the bachelor degree. Under the Group's organization structure, the research, development and technical support team has over 110 members while the marketing and sales team has 43 members.

For the purpose of reducing the operating cost and increasing the operating efficiency, the Group has laid off 2% of the redundant staff. However, due to the establishment of three subsidiaries and a business unit, the Group's total number of employees still increased by 2% as compared to last year.

OUTLOOK

Network Security Products

The Company anticipates that "security" would develop from communication security, information security to the era of information protection and from passive protection to active and all-round protection. Thus, the Company would continue to improve the existing technology and satisfy the request of customers by enhancing the functions of the products with "high function, high usage and high security".

The Company would develop various types of products and services so as to meet the demand for different level of security. The Company would endeavour to achieve technological break through for firewall products, protocol separating and filtering products, encryption and certification products, monitoring and auditing products, assessment and management products etc. such that the domestic security products could be advanced from low-end to high-end. The Company would also enhance the security system products with the functions of restriction of information in various level, invasion auditing, construction of effective protection, timely monitoring, easy tracking and periodical assessment.

Moreover, Jade Bird Netsoft would continue to improve the technology upgrade of software products, develop new markets and expand the operation. Jade Bird Netsoft has planned to participate in two to three major exhibitions for technology exchange and promotion of brand name. For research and development, Jade Bird Netsoft would further enhance the product quality and improve the product competitiveness.

Wireless Fire Alarm System

The Company would continue to develop the fire alarm products from civil construction to industrial properties and improve the function of the products. The technology of the wireless fire alarm products, including electronic sensors and detectors, has reached a leading position among the industry players. The Company would further refine the technology and the product appearance.

Moreover, the Company would establish technological cooperation with foreign enterprise for development of linkage system so that the Company's control system could be promoted to the market by incorporating their advanced technologies. Certain products have been sent for testing by government authorities. The Company would negotiate for building a manufacturing base and plan to export the fire alarm products in the near future so as to enhance the continuous development and enter into the world market.

In addition, the Company would unify the images of the sales agents over the country and would strive to fully establish the sales agents network in various provinces and cities.

Security ICs

The newly established BJSI would concentrate to develop the design of ICs and continue to refine the security ICs products to meet different demand of the customers. BJSI would start to develop the ICs of USB mouse circuits and the low power SRAM. The trial production is expected to commence in July to August 2003. BJSI would commence the development of applying the low power SRAM in mobile communication mode. Such product is widely applicable in PDA, vehicle unit box, GPS mobile phone and information utilisation in non-mobile application.

GPS Application System

The Company would continue the development of the 3rd generation GPS application system and commence the production of JB350M products. However, the market for the products would not be optimistic.

Smart Card Application System

The Company would continue to develop the application of smart card based on network and release the new generation system with both the smart card identification authentication and the linkage alarm system technology. Then, the market penetration for application of non-contact long distance smart card in logistics management could be further expanded. However, the market competition is very severe.

Digital Video Recorder

The technology development of digital video recording system would be mainly on the design of software and system function. The Company would establish technology cooperation and subcontract certain technology products. The Company would also continue to follow the technology update on international channel and DVR channel and prepare the development work. The research on MPEG-4 algorithm, embedded systems, and H323 framework are certain important projects.

The Company would endeavour to establish the sales agents and technology support network and adopt the strategy of differential concentration, with emphasis on financial institutes as the core for product development and provision of suitable and feasible total solution services. The Company would strive to expand various markets from mainly financial industry in the past to telecommunication, public security, transportation, power and construction etc. The Company would also provide the product maintenance, upgrade and localization services to the customers.

Remote Meter-reading System

Jade Bird Haodi would continue to improve its existing products and develop new products. For medium-voltage meter-reading systems, the design of the first generation products has been formulated. The trial production of the second-generation products is commenced. It is expected that three to four product types would be developed. For low-voltage meter-reading systems, Jade Bird Haodi would continue to improve the pre-sales and after-sales technology support services, and to provide a complete remote meter-reading solution to the customers. Jade Bird Haodi would endeavour to develop the market for small district specialized products and establish commercial alliance with the property developers for provision of auxiliary products. Jade Bird Haodi would also start the cooperation with Power Bureau for development of high-end products so as to develop and produce high value added products.

SMIC

In January 2003, SMIC has formed foundry partnership with Elpida Memory Inc from Japan and engaged in an agreement with Artisan Components Inc for development and delivery of the widely-used design platform for SMIC's advanced 0.18 micron CMOS process.

Currently, SMIC is building one of the world-class wafer fab facilities which includes six to nine wafer fabs. At present, three fabs have already been built and two of them are under operation. In addition to increase the manufacturing capacity of the Shanghai plant, SMIC is planning to build a new plant in Beijing so as to enhance the productivity and compete with the world semiconductor industry.

The Company expects that the global semiconductor industry would gradually recover in year 2003. The demand for integrated circuits would then increase in second half of the year. The Company also believes that SMIC would obtain a number of new purchase orders and its production level would also increase. As the operation of SMIC is maturing, the Company expects that the return from the investment in SMIC would be one of the major sources of revenue in future.

Summary

In view of the global economic depression, the Company expects that the business in 2003 will be very challenging. However, due to the China market is still developing and the demand for high tech product is still increasing, the Company believes that the business in 2003 will be further growing.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus	Actual business progress up to 31 December 2002
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1. Embedded Systems

1.1 Software

Continue to encourage internally the use of small-scale embedded system software library for enhancement of the Company's existing products

The development of the compiling software of the embedded microprocessor has been completed and passed the performance test.

Continue to improve the operation of embedded system software library

The development on improvement of the embedded system has been continued.

Continue to replenish new software components to small-scale embedded system software library; commence object-oriented software engineering

The development of infrared remote control receive and dispatch system software has been completed. Embedded system software has been applied for the related application using USB connect circuit.

1.2 Hardware

1.2.1 Embedded Microprocessor

Complete ASIC by using embedded microprocessor as core

The proprietary 32-bit processing core has been adopted in the design of chip encryptor. The design of the chip layout design has been completed.

Conduct integrated testing of embedded microprocessor

The chip testing program has been completed.

Integrate IP core with algorithm IP core and connect to EEPROM, ROM, RAM and other I/O bus to advocate employment of embedded microprocessor

The research on the realization of RSA encryption algorithm in ASIC products and the design of the algorithmic IP core have been completed. The EEPROM, Flash memory, RAM have been successfully integrated with the ASIC design and application of various kinds of information buses and I/O buses.

1.2.2 ASIC

Continue to replenish new cell/module to the library

The library SCI interface module has been integrated with the encryption specific algorithm module. The IP library has been primarily established.

Refine the existing cell/module

The circuit and domain designs of barrel shift register have been completed.

The circuit design of $\Sigma - \Delta$ modulator has been completed and the domain design is to be completed.

The domain design of the noise source has been completed.

Transceiver, Regulator and SIE module are still under research and development.

Amount to be financed by the net proceeds from the Placing : RMB23,000,000

Amount utilized by the net proceeds from the Placing : RMB 4,200,000

2. Products Development

2.1 Security ICs

Conduct research and development or COS

For the design and development of smart card chips, the development of chip operating system has been completed.

Complete development of COS

The Company has also completed the development of three new product types: LPSRAM, HSRAM and SDRAM.

2.2 Network Security Products

Commence research and development of high speed mainframe control system

The double chip and low-cost hardware design and software design of encryption card have been completed. The integration of transparent network bridge and VPN function in accordance with IPSEC standard has been commenced and under the basic technology testing stage.

The firewall system platform based on the disk on chip has been newly developed and proceeded to system integration stage.

Continue development of security gateway for e-commerce and bank electronic clearing system

The low-cost SJY01-B data encryption card has been under performance testing.

Commence commercialization of application specific security gateway

The stability and reliability test of the router net bridge firewall systems developed based on disk on chip and hard disk has been completed.

Develop virtual host/virtual proxy server

The VPN function has been integrated into the firewall system. The Jade Bird firewall products have been developed to link with various IDS products and to realize the mail proxy function. The batch production has been commenced.

2.3 Smart Card Application System

Continue research and develop application specific Smart Card Application System.

For the network chip card on LINUX application platform, research and development on the automatic application system with the function of identity recognition and image collection has been conducted.

Refine and improve intelligence household management

The development of smart card in network application and management in the internet have been commenced.

2.4 GPS Application System

Commence software design of 3rd generation GPS Application System JB-350M

Design of the 3rd generation GPS application system software for the public/specific network has been commenced. The central platform software of the public/specific network auto dispatch and monitor system has been developed.

The GPS logistics auto-dispatch and monitor system based on WEB GIS technology has been examined and improved. For JB-350M GPS application system, debug on each sub-system as well as the whole system has been conducted.

Conduct preliminary testing on 3rd generation GPS Application System JB-350M

The combine debug of the basic station and vehicle boxes of the 3rd generation GPS application system have been completed. The environmental test and improvement for the vehicle boxes have also been conducted.

2.5 WFAS

Commence and complete research and development of home wireless alarm system

The linkage type and the fire fighting type of LN1010 controllers have been released. The auxiliary functions of the fire alarm controller with the same specification have also been improved. The read-write and display functions of the encoder has been enhanced.

The design of merging the circuits of detective unit and addressable interface has been adopted to lower the manufacturing cost and increase the overall technological level.

The development and examination of wireless communications between region and central controllers have been completed.

The development of software program and system integration for PC display operating system in wireless fire alarm control centre have been completed.

Amount to be financed by the net proceeds from the Placing : RMB27,000,000

Amount utilized by the net proceeds from the Placing : RMB 2,900,000

3. Production

3.1 Security ICs

Commence full-scale production of the 1st, 2nd and 3rd generation of Security ICs

The production, promotion and sale of the 1st, 2nd and 3rd generation Security ICs have been continued. The 3rd generation Security ICs was under the authentication by China State Cryptography Control Authority Office.

3.2 Network Security Products

Commenced full-scale production of application specific security gateway

The market research has been completed and the full-scale production of application specific security gateway has been commenced.

Continue production of existing Network Security Products

995 sets of the existing gateway firewall products has been continued.

3.3 Smart Card Application System

Commence full-scale production of security and intelligent Smart Card Application System

The Company has promoted the commencement and application of the smart card application systems in Peking University, Northeast Agriculture University, Northeast Normal University, Beijing Military Armory, Juran Furniture City, Inner Mongolia Prison Management Bureau etc.

3.4 GPS Application System

Continue full-scale production of (JB230M) and (JB420M) products

The full scale production of the vehicle boxes of JB-230M and JB-420M application systems have been commenced.

3.5 WFAS

Continue full-scale production and assembly of existing WFAS products

Full-scale production of the existing fire alarm system products, including approximately 150,000 sets of fire alarm detector and approximately 1,100 sets of controller, has been continued.

4. Relevant approvals and permits

4.1 Network Security Products

In May, the SJY01-B PCI Data Encryption Chip passed the technology examination and was granted the “Technology Examination Certificate” by China State Cryptography Control Authority Office (“CSCCAO”).

In June, the “SIK01 Secret Key Management Centre System” passed the security examination by CSCCAO.

The sales permit for Jade Bird Gateway Firewall JB-FW1 products has been renewed.

The examination of the Jade Bird Gateway Firewall JB-FW1/1000 has been conducted and passed by the Product Testing Centre of the Public Security Ministry. The Computer Information System Security Specific Products Sales Permit has also been obtained.

4.2 WFAS

On October 17, the examination of the JB-TG-JBF-11S (linkage type) fire alarm controller was passed by the National Fire Fighting Electronics Quality Supervision and Test Center.

On October 25, the examination of the JBF-191F/D fire display dish was passed by the National Fire Fighting Electronics Quality Supervision and Test Center.

On October 31, the examination of the JB-QB-JBF-11S/CE2 gas-type fire-fighting controller was passed by the National Fire Fighting Electronics Quality Supervision and Test Center.

5. Marketing activities

5.1 Continue placing advertisement on industry-related and professional magazines

The Company has advertised in the following science and technology magazines :

- China Public Security
- Huicong Business Information
- China Public Security Index
- Information and Network Security
- Security Technology Information

The Company has advertised in the following fire industry magazines :

- Fire Prevention Product and Technology Information
- Asia Fire Prevention and Security

The Company's fire alarm products and projects quotation has been listed in the magazine "Beijing Project Cost Information" as the market reference prices.

5.2 Establish a comprehensive sales network in China

The Company has continued to establish sales agents in the country and has newly contracted with eight sales agents.

5.3 Participate in professional and industry-related exhibitions in China

During May 23 to 28, the Company has participated in the "China Beijing International Science and Technology Industry Exposition" organized by the Ministry of Science and Technology, Ministry of Foreign Trade and Economic, Ministry of Education, Ministry of Information Industry and China Council for Promotion of International Trade in Beijing.

During June 5 to 7, the Company has participated in the "Network Information Security Products Exhibition" organized by the Ministry of Information Industry in Beijing.

During September 18 to 21, the Company has participated in "2002 Suzhou International Public Security Products and Technology Equipment Exhibition" to promote the JBDVR digital video recorder products.

In October, the Company has participated in "the Ninth China International Fire Prevention Equipment Technological Exchange Exhibition" which is sponsored by China Fire Prevention Association. Such exhibition has the highest recognition in the fire prevention industry.

During October 12 to 17, the Company has participated in “the Fourth China Hi-Tech Fair” sponsored by China Ministry of Foreign Trade and Economic Cooperation, China Ministry of Science and Technology, China Ministry of Information Industry, China State Development Planning Commission, Chinese Academy of Sciences and the Shenzhen Government once every year in Shanghai.

During October 29 to November 2, the Company has participated in “2002 China International Communication Equipment Technology Exhibition” organized by Beijing China International Exhibition Centre.

5.4 Conduct trade show and seminars for the Company's new products

On June 14, the Company has co-organized the “Network Security Technical Seminar” with Zhejiang Provincial Government Information Centre in Hangzhou.

During June 26 to 28, the Company has participated in the “2002 China International Software Exposition and Technology Seminar” in Beijing.

Amount to be financed by the net proceeds from the Placing : RMB14,000,000

Amount utilized by the net proceeds from the Placing : RMB1,300,000

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2002, except for those shares held through Heng Huat Investments Limited (“Heng Huat”) as set out below, none of the Directors and the supervisors of the Company (the “Supervisors”) or their associates had any personal, family, corporate or other interests in the shares of the Company or associated corporations, if any, pursuant to section 29 of the SDI Ordinance.

Heng Huat

Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu Yue, all executive Directors of the Company, are trustees holding 60, 20 and 20 shares out of 100 shares in the issued share capital of Heng Huat. Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu Yue are also directors of Heng Huat.

By a Declaration of Trust made as a deed on 19 July 2000, Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu Yue declared that they held the shares of Heng Huat as trustees for the benefits of 477 employees of the Jade Bird Group and the Company. Heng Huat and Gameraian Limited are the two shareholders beneficially entitled to approximately 93.37% and approximately 6.63% respectively in the issued share capital of Dynamic Win Assets Limited (“Dynamic Win”).

The beneficial interests of the Directors and Supervisors in the share capital of the Company are deemed as follows:

<u>Director/Supervisor</u>	<u>Type of interests</u>	<u>Number of Shares</u>	<u>Percentage of deemed beneficial interest in the Company’s share capital</u>
Mr. Xu Zhen Dong	Other	76,874,140	7.97%
Prof. Zhang Wan Zhong	Other	21,732,240	2.25%
Prof. Liu Yue	Other	21,732,240	2.25%
Mr. Xu Zhi Xiang	Other	8,086,500	0.84%
Prof. Chen Zhong	Other	8,086,500	0.84%
Prof. Yang Fu Qing	Other	12,129,750	1.26%
Prof. Wang Yang Yuan	Other	12,129,750	1.26%
Mr. Zhang Yong Li*	Other	4,043,250	0.42%
Mr. Li Chun*	Other	336,680	0.03%
Mr. Fan Yi Min*	Other	151,600	0.02%

* *Supervisors*

DIRECTORS’ AND SUPERVISORS’ RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, during the year ended 31 December 2002, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2002, none of the Directors or the Supervisors had any rights to acquire H shares in the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the only persons directly or indirectly entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company, or otherwise interested in 10% or more of the issued share capital of the Company were as follows:

<u>Shareholder</u>	<u>Number of Promoters' Shares</u>	<u>Approximate effective interests in the Company</u>
Peking University (Note 1)	221,345,350	22.96%
Beijing Beida Jade Bird Software System Company ("Jade Bird Software") (Note 2)	136,345,350	14.14%
Dynamic Win Assets Ltd ("Dynamic Win") (Note 3)	220,000,000	22.82%
Heng Huat (Note 3)	205,414,000	21.31%

Notes :

(1) Peking University, through Jade Bird Software, Beijing Beida Jade Bird Limited ("Jade Bird"), Beijing Beida Yu Huan Microelectronics System Engineering Company ("Yu Huan") and Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited ("Beijing Tianqiao"), has effective interests in the Company comprising :

- (a) 85,000,000 shares (representing approximately 8.82% of the Company's issued share capital) held by Yu Huan, which is beneficially wholly-owned by Peking University;
- (b) 110,000,000 shares (representing approximately 11.41% of the Company's issued share capital) held by Jade Bird Software, which is beneficially wholly-owned by Peking University;
- (c) 18,400,000 shares (representing approximately 1.91% of the Company's issued share capital) held through Jade Bird, which is approximately 46% owned by Peking University;
- (d) 7,945,350 shares (representing approximately 0.82% of the Company's issued share capital) held through Beijing Tianqiao, which is approximately 10.60% owned by Peking University.

(2) The interests of Jade Bird Software comprises :

- (a) 110,000,000 shares (representing approximately 11.41% of the Company's issued share capital) held by Jade Bird Software;
- (b) 18,400,000 shares (representing approximately 1.91% of the Company's issued share capital) held through Jade Bird, which is approximately 46% owned by Jade Bird Software;
- (c) 7,945,350 shares (representing approximately 0.82% of the Company's issued share capital) held through Beijing Tianqiao, which is approximately 10.60% owned by Jade Bird Software.

(3) Dynamic Win is a limited liability company incorporated in Hong Kong under the Companies Ordinance, the shareholding of which is held as to approximately 6.63% by Gameraian Limited and approximately 93.37% by Heng Huat. Gameraian Limited is a wholly owned subsidiary of New World CyberBase Limited, which is a company whose shares are listed on the Main Board of the Stock Exchange. Heng Huat is a company incorporated in the British Virgin Islands, the entire issued share capital of which is held by three of the executive directors of the Company as trustees for the benefits of the qualified employees of the Jade Bird Group and the Company.

SPONSOR'S INTEREST

As at 31 December 2002, none of the Company's sponsor, Tai Fook Capital Limited ("Tai Fook"), its directors, employees or associates (as defined in the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the Sponsor's agreement dated 19 July 2000 between the Company and Tai Fook, Tai Fook received a fee for acting as the Company's retained sponsor for the period from 27 July 2000 to 31 December 2002.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company established an audit committee on 5 July 2000 with terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Company. As at 31 December 2002, the Audit Committee has two members namely, the two independent non-executive Directors, Prof. Nan Xiang Hao and Mr. Ambrose Chin Man Chung. An audit committee meeting was held in March 2003 to review the Group's annual report and provide advice and recommendations to the board of directors.

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

For the year ended 31 December 2002, the Company did not purchase, sell or redeem any of the Company's H shares.

By order of the Board
Xu Zhen Dong
Chairman

Beijing, the PRC, 28 March 2003

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