The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Arthur Andersen & Co. Certified Public Accountants, Hong Kong, the auditors of, and reporting accountants to, the Company.

ARTHUR ANDERSEN

Arthur Andersen & Co
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

20th July, 2000

The Directors
Beijing Beida Jade Bird Universal Sci-Tech Company Limited
Tai Fook Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Beijing Beida Jade Bird Universal Sci-Tech Company Limited (the "Company") for the years ended 31st December, 1998 and 1999 (hereinafter collectively referred to as the "Relevant Periods") for inclusion in the prospectus of the Company dated 20th July, 2000 (the "Prospectus").

The Company was incorporated in Beijing, the People's Republic of China (the "PRC") on 29th March, 2000 to engage in the development, manufacturing, marketing and sales of embedded systems and related products and integrated circuits. The Company is also engaged in the provision of total solution through application of its existing embedded system products. Prior to the formation of the Company, the businesses and operations now undertaken by the Company were carried by certain entities controlled by Peking University (hereinafter collectively referred to as "Predecessor Entities"). All such businesses were transferred to the Company pursuant to the reorganisation as described in Section 1 below.

As at the date of this report, no audited financial statements have been prepared by the Company as it was incorporated subsequent to 31st December, 1999. The Predecessor Entities were not subject to independent audit. The management accounts of the Predecessor Entities were prepared in accordance with the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). For the purpose of this report, we have carried out independent audits of the combined financial statements of the Predecessor Entities for the years ended 31st December, 1998 and 1999, prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP"), in accordance with the Auditing

Standards issued by the Hong Kong Society of Accountants ("HKSA"), and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

The summaries of the combined results of operations of the Predecessor Entities for the years ended 31st December, 1998 and 1999, and of the combined net tangible assets as at 31st December, 1999 (the "Summaries") set out in Section 4 and Section 5, respectively, below have been prepared from the accounts of the Predecessor Entities on the basis as set out in Section 2 below, after making such adjustments as are appropriate. When referring to historical information in the following report, the terms the "Company" and the "Predecessor Entities" are used interchangeably.

The Directors or legal representative, where applicable, of the Predecessor Entities are responsible for preparing financial statements of the Predecessor Entities which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors of the Company are also responsible for the summaries of the combined results of operations of the Company for the years ended 31st December, 1998 and 1999 and of the combined net tangible assets of the Company as at 31st December, 1999. It is our responsibility to form an independent opinion on the summaries of the combined results of operations and of the combined net tangible assets of the Company.

In our opinion, the Summaries, together with the notes thereto, for the purpose of this report, give a true and fair view of the combined results of operations of the Company for the years ended 31st December, 1998 and 1999 and of the combined net tangible assets of the Company as at 31st December, 1999.

1. COMPANY REORGANISATION

As described in the section "Business – History and Development" of the Prospectus, the Predecessor Entities underwent a reorganisation (the "Reorganisation") in preparation for an offering of the Company's shares (the "Offering"). Pursuant to the Reorganisation, a Promoters' Agreement was entered into among the nine promoters for the establishment of the Company as a Sino-foreign joint stock limited liability company under the Company Law in the PRC. All the Company's capital has been paid-up in the form of cash by the promoters as at 17th April, 2000.

On 17th April, 2000, the Company has entered into various Business Transfer Agreements and Contract Transfer Agreements (see Section 7a), pursuant to which, the Predecessor Entities transferred the entire businesses and operations of network security products, smart card application system, wireless fire alarm system ("WFAS"), application specific integrated circuit ("ASIC") and Global Positioning System application system ("GPS application system") to the Company. The Company paid an aggregate of approximately RMB19 million as consideration for the transfer. As required by the relevant PRC laws and regulations relating to the reorganisation involving state-owned assets, the businesses and net assets of the Predecessor Entities were transferred to the Company at the appraised values (approximately RMB19 million) of the assets as at 31st December, 1999. The appraisal was performed by a professional and independent PRC appraiser. The fixed assets transferred are recorded at the appraised value. The difference between the appraised value and the net book value of the assets transferred other than fixed assets amounted to approximately RMB7 million and is recorded as a deduction to the capital reserve of the Company. Since the transfer was among entities under common control, the transaction has been accounted for similar to a pooling of interests.

According to the resolution of the extraordinary shareholders' meeting in July 2000, prior to any future dividends being declared, all distributable profit must first be applied against the capital reserve until the above difference has been reinstated in the capital reserve account.

2. BASIS OF PRESENTATION

The Summaries were prepared based on the accounts of the Predecessor Entities, as restated in accordance with HK GAAP and after making such adjustments as are appropriate. The Summaries include the combined results of operations of the Predecessor Entities, now comprising the Company, for the years ended 31st December, 1998 and 1999, and the combined net tangible assets of the Predecessor Entities as at 31st December, 1999, as if the Reorganisation had been completed as at the beginning of the Relevant Periods presented and the business activities had been conducted by the Company throughout the Relevant Periods. The assets acquired have been stated at the historical cost of the Predecessor Entities except for fixed assets which are stated at the appraised value.

Significant inter-company transactions and balances among the Predecessor Entities have been eliminated on combination.

3. PRINCIPAL ACCOUNTING POLICIES

The following principal accounting policies were adopted by the Company in arriving at the financial information set out in this report, which conform with HK GAAP:

(a) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on the weighted average method of costing and includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on 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. Provision is made for obsolete, slow-moving or defective items where appropriate.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally included in the determination of net loss in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis, with no residual value, over the following estimated useful lives:

Leasehold improvements	2 years (term of the lease)
Machinery and equipment	5 – 10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Computers	3 years

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the results of operations.

(c) Revenue and income recognition

Revenue and income are recognised on the following bases:

(i) Revenues

Revenues include sale of embedded systems products including network security products, smart card application system, WFAS, ASIC and GPS application system, maintenance, technical support services and training services, after deducting the applicable sales taxes.

Revenue from sales of embedded systems and related products are recognised when delivery or acceptance has occurred, the fee is fixed and determinable, evidence of an arrangement exists, collection of the receivable is probable and no significant post-delivery obligations remain. For sales to end users, revenue is recognised upon acceptance of completed installation. For sales to distributors, revenue is recognised upon delivery of the product to the distributor.

Maintenance and technical support revenues are recognised ratably over the term of the agreement. Training revenue is recognised when the service is provided.

Deferred revenues represent amounts received for which the earnings process has not been completed.

(ii) Interest income

Interest income is recognised on an accrual basis on the principal outstanding and at the rates applicable.

(iii) Subsidy income

Government grants for research of new technology is recognised as subsidy income when received.

(d) Cost of revenues

Cost of revenues includes direct materials, direct labour, manufacturing overheads, royalty fees and provision for warranty of products sold. Royalty fees are recorded at rates as determined in the technology license agreements.

(e) Warranty

Provision for warranty costs is recorded based on management's estimate of future warranty liabilities, in respect of warranty periods ranging from one to three years.

(f) Research and development

Research costs are charged to operating expenses as and when incurred.

Development costs directly attributable to the development of a project are capitalised as intangible assets when it can be demonstrated that (a) the project is technically feasible to complete so that it will be available for use or sale; (b) the Company intends to complete the project and is able to use or sell it; (c) the intangible asset will generate probable future economic benefits; (d) adequate technical, financial, and other resources are available to complete the development and to use or sell the intangible asset; and (e) the attributable expenditure can be reasonably measured. During the Relevant Periods, there were no costs that meet the capitalisation criteria and all product development costs have been expensed as incurred. Other product development costs are included in the determination of net loss as and when incurred.

(g) Selling and marketing

Selling and marketing expenses are expensed as incurred.

(h) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(i) Foreign currency translations

The books and records of the Company are maintained in Renminbi ("RMB"). Transactions in other currencies during the year are translated into RMB at the exchange rates quoted by the People's Bank of China (the "PBOC") in effect at the dates of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into RMB at rates of exchange quoted by PBOC in effect at the balance sheet date. Exchange differences are included in the determination of net loss for the respective periods.

During the years ended 31st December, 1998 and 1999, substantially all the transactions were denominated in RMB. Accordingly, exchange differences recorded during those periods were minimal.

(j) Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are included in the determination of net loss on a straight-line basis over the periods of the relevant leases.

(k) Staff retirement benefits

The costs of staff retirement benefits are recognised as expense in the relevant periods in which they are incurred.

(l) Financial instruments

Financial instruments consist of cash and bank balances, accounts receivable and accounts payable. The estimated fair value of these financial instruments approximates their carrying value.

4. RESULTS OF OPERATIONS

The following is a summary of the combined results of operations for the years ended 31st December, 1998 and 1999, prepared on the basis set out in Section 2 above.

		1998	1999	
	Note	*RMB*	*RMB*	*HK$*
REVENUES	*(b)*	3,029,002	10,419,234	9,807,261
COST OF REVENUES	*(b)*	(2,958,731)	(7,153,681)	(6,733,510)
Gross margin		70,271	3,265,553	3,073,751
SUBSIDY INCOME		237,999	–	–
OPERATING EXPENSES				
Research and development		(3,720,861)	(4,717,902)	(4,440,796)
Selling and marketing		–	(186,539)	(175,583)
General and administrative	*(d)*	(1,555,100)	(2,741,268)	(2,580,260)
Total operating expenses		(5,275,961)	(7,645,709)	(7,196,639)
Loss from operations		(4,967,691)	(4,380,156)	(4,122,888)
OTHER INCOME (LOSS), NET		160,345	(106,087)	(99,856)
LOSS BEFORE TAXTION	*(c)*	(4,807,346)	(4,486,243)	(4,222,744)
TAXTION	*(e)*	–	–	–
NET LOSS		(4,807,346)	(4,486,243)	(4,222,744)
LOSS PER SHARE – BASIC	*(f)*	(0.069)	(0.064)	(0.060)

Translation of amounts from RMB into Hong Kong dollars ("HK$") for the convenience of the reader has been made at the rate quoted by the People's Bank of China on 30th June, 2000 of HK$1.00 = RMB1.0624. RMB is not freely convertible into other currencies. No representation is made that the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at that rate on 30th June, 2000 or any other certain rate.

Pro forma information

The following is a summary of the pro forma information prepared on the basis set out in Section 2 above, after making the notional adjustments that are considered necessary by management to reflect the subsequent events as described in Section 7 and as further described in note (a) below, as if the businesses had been conducted through the Company from 1st January, 1998:

	Note	1998 RMB	1999 RMB
NET LOSS AS SET OUT ABOVE		(4,807,346)	(4,486,243)
NOTIONAL ADJUSTMENTS:			
Research and development costs	*a(i)*	799,278	208,327
Royalty fee	*a(i)*	(62,517)	(4,878)
Local government surcharges	*a(ii)*	4,988	29,832
PRO FORMA ADJUSTED NET LOSS		(4,065,597)	(4,252,962)
PRO FORMA LOSS PER SHARE	*(f)*	(0.058)	(0.061)

Notes:

(a) Description of pro forma adjustments

(i) Pursuant to the Reorganisation as stated in Section 1 above, the Company acquired all the assets and liabilities except for GPS technology applying 230m which was developed by the Predecessor Entities before March 1999. Accordingly, a pro forma adjustment to reverse the research and development expenses incurred for GPS technology applying 230m is made. In addition, the Company has entered into a technology license agreement on 17th April, 2000 (Section 7b below) with Beijing Tianqiao Beida Jade Bird Sci-Tech Company Ltd. ("Beijing Tianqiao"), one of the Predecessor Entities also controlled by Peking University, in which the Company should pay a royalty fee of 3% of GPS application system revenues to Beijing Tianqiao subsequent to the Reorganisation, accordingly a pro forma adjustment to provide for the royalty fee for using such technology based on revenues is made.

(ii) The Company, being a foreign-invested enterprise, is not subject to the local government surcharges payable by the Predecessor Entities (see Note (e) below). Accordingly, a pro forma adjustment to reverse local government surcharges is made.

(b) Revenues and cost of revenues

	1998	1999
	RMB	*RMB*
Revenues		
Network security products	–	6,066,286
Smart card application system	206,214	2,475,912
WFAS	739,142	1,031,285
ASIC	–	683,137
GPS application system	2,083,646	162,614
Subtotal	3,029,002	10,419,234
Cost of revenues		
Network security products	–	3,553,303
Smart card application system	184,767	2,188,715
WFAS	515,500	662,759
ASIC	–	586,290
GPS application system	2,258,464	162,614
Subtotal	2,958,731	7,153,681
Gross margin	70,271	3,265,553

For the years ended 31st December, 1998 and 1999, the five largest customers accounted for approximately 93.1% and 69.1% respectively of the Company's revenues.

(c) Loss before taxation

Loss before taxation was arrived at after charging (crediting) the following:

	1998	1999
	RMB	*RMB*
Subsidy income	(237,999)	–
Operating lease in respect of rented premises	455,666	569,346
Depreciation of fixed assets included under		
– cost of revenues	180,008	146,618
– research and development	619,394	934,942
– selling, general and administrative	30,717	180,053
Staff costs included under		
– cost of revenues	476,049	443,394
– research and development	1,383,476	1,888,573
– selling, general and administrative	414,943	1,123,259
Cost of inventories	2,792,085	6,223,681
Royalty fee	–	430,000
Writedown of inventory to net realisable value	166,646	–
Provision for warranty	–	500,000
Loss on disposal of fixed assets	–	133,173
Interest income from bank deposits	(15,918)	(13,080)
Auditors' remuneration	–	–

(d) Related party transactions

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

Particulars of significant transactions between the Company and related parties during the Relevant Period which, in the opinion of the Company's Directors, were conducted in the usual course of business under terms as specified in the underlying contracts or based on pre-determined pricing terms, are summarised below:

Nature of transaction	**Name of related party**	**Relationship**	**Amount 1998** *RMB*	**1999** *RMB*
Included in the results of operations:				
Service fee *(Note (i))*	Institute of Microelectronics	A department of Peking University, the ultimate controlling shareholder	576,000	–
Rental expenses *(Note (iii))*	Beijing Beida Jade Bird Limited ("Jade Bird")	One of the Predecessor Entities and promoters controlled by Peking University	399,000	416,000
Included in net tangible assets:				
Inventory *(Note (ii))*	Peking University	An associated company of Jade Bird	–	609,000
Deferred revenue *(Note (ii))*	Tian Mu	An associated company of Jade Bird	–	10,000,000
	Peking University		–	760,000

Continuing transactions:

(i) For the year ended 31st December, 1998, the Company paid service fee of approximately RMB576,000 to Institute of Microelectronics for the rental of equipment and provision of research personnel to the Company for the development of its ASIC products (see Section 7e below).

(ii) During the year ended 31st December, 1999, the Company entered into agreements with Tian Mu and the Library of Peking University for the construction of GPS application system and WFAS respectively. As at 31st December, 1999, the construction work of the two projects have not been completed. Out of the total consideration of approximately RMB23,410,000, approximately RMB10,760,000 has been received as at 31st December, 1999 and included as deferred revenue. In addition, costs of approximately RMB609,000 incurred for the projects have been included as work-in-progress as at 31st December, 1999.

Non-continuing transactions:

(iii) For the years ended 31st December, 1998 and 1999, the Company paid rental expenses of approximately RMB399,000 and RMB416,000, respectively to Jade Bird for the lease of certain office and production areas. The rental arrangements were subsequently terminated in April 2000.

(e) Taxation

Enterprise income tax

Enterprise income tax ("EIT") is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The Company, being located in the New Technology Industrial Development Experimental Zone ("NTIDEZ") in Beijing and registered as a New and High Technology Enterprise, should be entitled to a reduced EIT rate of 15% and a tax holiday of three years full exemption from EIT starting from the first operating year, followed by a 50% reduction from the fourth to sixth year, subject to the approval from the relevant tax bureau.

No provision for Hong Kong profits tax or PRC EIT was made as the Company had no assessable profits in the respective jurisdictions during the years covered in this report.

As at 31st December, 1999, there were no significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, which would result in deferred taxation.

Value-added tax ("VAT")

Under the "Provisional Regulations of the People's Republic of China on Value-added Tax", the Company is subject to output VAT levied at the rate of 17% on the sales or transfer of tangible goods in the PRC, provision of processing, repairs and replacement services. Input VAT paid on purchases can be used to offset the output VAT levied on operating revenue to determine the net VAT payable.

Business tax ("BT")

The Company is subject to BT on the provision of maintenance, support and training services in the PRC. The BT rate is 5% on gross revenues.

Local government surcharges

Prior to the establishment of the Company, the businesses to be injected into the Company were subject to local government surcharges calculated at certain percentages of the net VAT payable. The local government surcharges have been reversed in the pro forma information.

(f) Loss per share

The loss per share for the years ended 31st December, 1998 and 1999 is based on the net loss during the years and assuming 70,000,000 shares in issue during those years as if the Reorganisation had taken place on 1st January, 1998.

(g) Directors' and senior executives' emoluments

(i) Details of emoluments paid to directors of the Company were:

	1998	**1999**
	RMB	*RMB*
Executive directors		
Fees	–	–
Other emoluments		
– Basic salaries and allowances	325,750	379,750
Non-executive directors		
Fees	25,000	25,000
Other emoluments		
– Basis salaries and allowances	–	–
	350,750	404,750

The remuneration of all directors falls within the range of Nil to RMB1,000,000 during the Relevant Periods. The five executive directors received individual emoluments of approximately RMB106,000, RMB72,250, RMB18,000, RMB67,250, RMB62,250 for the year ended 31st December, 1998 and RMB106,000, RMB72,250, RMB72,000, RMB67,250 and RMB62,250 for the year ended 31st December, 1999, respectively.

No directors waived any emolument during the Relevant Periods. No incentive payment for joining the Company or compensation for loss of office was paid or payable to any director during the Relevant Periods.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 31st December, 2000 is estimated to be approximately RMB890,000.

(ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	1998	**1999**
	RMB	*RMB*
Basic salaries and allowances	342,510	434,710
Number of directors	3	3
Number of employees	2	2
	5	5

The remuneration of the five highest paid individuals falls within the range of Nil to RMB1,000,000 during the Relevant Periods.

During the Relevant Periods, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Company or as compensation for loss of office.

Save as disclosed above, no remuneration has been paid or is payable in respect of the Relevant Periods by the Company to its directors.

(h) Retirement benefits

The Company has participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Company is required to make specific contributions to the retirement schemes at a rate of 19% of the basic salary of its PRC employees for the two years ended 31st December, 1999 and has no further obligation for post-retirement benefits beyond the annual contributions made. The retirement plan contributions paid for the years ended 31st December, 1998 and 1999 pursuant to these arrangements, amounted to approximately RMB165,000 and RMB574,000 respectively.

(i) Distribution of profit

In accordance with the relevant laws and regulations of the PRC and the Company's articles of association, the Company is required to appropriate 10% and 5% to 10% respectively of its profit after taxation, determined based on the financial statements prepared in accordance with PRC accounting standards and regulations, after offsetting any prior years' losses, to the statutory surplus reserve and statutory public welfare fund. When the balance of the statutory surplus reserve reaches 50% of the Company's 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 the issue of 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 balance after such issue is not less than 25% of share capital. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees such as construction of dormitories, canteen and other staff welfare facilities. Title of these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

In addition, appropriation of profits to the discretionary surplus reserve can be made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to shareholders' approval at the general meeting.

In accordance with the articles of association, the Company declares dividends based on the lower of retained earnings as reported in accordance with PRC GAAP and that reported in accordance with HK GAAP after deduction of the current year's appropriations to the reserves. The difference in retained earnings between PRC GAAP and HK GAAP as at 31st December, 1999 was not material.

No dividend has been paid or declared by the Company since its incorporation.

5. NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets as at 31st December, 1999, prepared on the basis set out in Section 2 above.

	Note	*RMB*	*HK$*
FIXED ASSETS, net	*(a)*	8,479,541	7,981,496
CURRENT ASSETS			
Inventories	*(b)*	1,972,006	1,856,180
Prepayments and other current assets		317,521	298,871
Accounts receivable		3,188,596	3,001,314
Cash and bank balances		12,341,032	11,616,182
Total current assets		17,819,155	16,772,547
CURRENT LIABILITIES			
Deferred revenue		(11,553,038)	(10,874,471)
Taxes payable		(1,205,643)	(1,134,830)
Accounts payable and accrued liabilities	*(c)*	(2,161,504)	(2,034,548)
Total current liabilities		(14,920,185)	(14,043,849)
Net current assets		2,898,970	2,728,698
Net tangible assets		11,378,511	10,710,194

Translation of amounts from RMB into Hong Kong dollars ("HK$") for the convenience of the reader has been made at the rate quoted by the People's Bank of China on 30th June, 2000 of HK$1.00 = RMB1.0624. RMB is not freely convertible into other currencies. No *representation is made that the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at that rate on 30th June, 2000 or any other certain rate.*

Notes:

(a) Fixed assets, net

	Cost	Accumulated depreciation	Net book value
	RMB	*RMB*	*RMB*
Leasehold improvements	465,115	(42,210)	422,905
Machinery and equipment	17,706,009	(10,863,169)	6,842,840
Furniture, fixtures and office equipment	430,808	(112,598)	318,210
Motor vehicles	570,504	(219,437)	351,067
Computers	815,511	(270,992)	544,519
	19,987,947	(11,508,406)	8,479,541

(b) Inventories

	RMB
Raw materials	685,405
Work-in-progress	927,754
Finished goods	354,190
Low-value consumables and others	4,657
	1,972,006

The amount of inventories (included above) carried at net realisable value is approximately RMB237,000.

(c) Accounts payable and accrued liabilities

	RMB
Accounts payable	385,190
Staff welfare payable	696,200
Royalty fee payable	430,000
Provision for warranty	500,000
Others	150,114
	2,161,504

(d) Net tangible assets of the Company

The Company was incorporated on 29th March, 2000. On the basis as set out in Section 2 above, the net tangible assets of the Company as at 31st December, 1999 amounted to approximately RMB11.4 million.

(e) Distributable reserves

As at 31st December, 1999, the Company had not been incorporated and hence there was no reserve available for distribution to shareholders on that date.

6. COMMITMENTS AND CONTINGENCIES

As at 31st December, 1999, the Company had aggregate outstanding lease commitments of approximately RMB320,000 in respect of its rented premises under a non-cancellable operating lease agreement extending to August 2001. RMB197,000 are due within the next twelve months on leases which expire within one to two years. As at 31st December, 1999, the Company did not have any other significant contingent liabilities. Subsequent to year end, the Company assumed some of the leases from its Predecessor Entities (See Section 7a below) and entered into certain new lease agreements (see Section 7g below).

7. SUBSEQUENT EVENTS

(a) Reorganisation and business transfer

On 17th April, 2000, the Predecessor Entities underwent the Reorganisation in preparation for the Offering. Pursuant to the Reorganisation, a Promoters' Agreement was entered into among the nine promoters for the establishment of the Company as a Sino-foreign joint stock limited liability company under the Company Law in the PRC. All the Company's capital of RMB70 million has been paid up in the form of cash by the promoters as at 17th April, 2000.

Concurrently, the Company entered into various Business Transfer Agreements, pursuant to which, the Predecessor Entities transferred the entire business and operations of network security products, smart card application system, WFAS, ASIC and GPS application system to the Company. The Company paid an aggregate of approximately RMB19 million as consideration for such transfer. The Business Transfer Agreements with the Predecessor Entities are set out in section B of Appendix 5 to the Prospectus.

In separate agreements with Beijing Tianqiao, Jade Bird, Shenzhen Beida Jade Bird Sci-tech Company Limited and Peking University, the Company was to assume all outstanding contracts relating to the development of smart card application system, the sale of GPS application system and services and the installation of a WFAS. The agreements also provided for the transfer of a rental agreement relating to premises that have been used by the Company in Shenzhen. There was nil consideration for the contract transfers.

(b) Technology license agreements

Pursuant to the Technology License Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company, Beijing Tianqiao agreed to grant to the Company an exclusive license for the use of certain GPS technology applying 230m frequency band for a term of 10 years, in return for a royalty fee of 3% on the total sales of such products. In addition, pursuant to the JB-CASE Technology License Agreement dated

17th April, 2000 between Beijing Beida Jade Bird Software System Co. ("Jade Bird Software") and the Company, Jade Bird Software agreed to grant a non-exclusive license to the Company for the use of technology relating to JB-CASE for nil consideration.

(c) Non-competition agreements and trademark license contract agreement

Pursuant to the non-competition agreements dated 17th April, 2000, Jade Bird Software and Beijing Beida Yu Huan Microelectronics System Engineering Company, both wholly-owned by Peking University, Jade Bird and Beijing Tianqiao (hereinafter collectively referred to as "Four Domestic Promoters") and Peking University have severally agreed not to engage or participate directly or indirectly in any business which may compete directly or indirectly with the Company's embedded systems business. In addition, Jade Bird Software has agreed to license certain of its trademark for the use by the Company for a term of 10 years for nil consideration.

(d) Technological cooperation and support agreements

Pursuant to the technological co-operation and support agreements dated 17th April, 2000, the Four Domestic Promoters and Peking University agreed to provide continuing technological cooperation and support relating to the research and development of embedded systems to the Company at market price.

(e) Equipment lease agreements

Pursuant to the equipment lease agreements dated 17th April, 2000, the Institute of Microelectronics agreed to lease certain of its equipment to the Company for a term of five years at an hourly rate of RMB120 per hour, while the Company also agreed to lease certain of its equipment to the Institute of Microelectronics for a term of five years at an annual fee of RMB1.26 million.

(f) Master sales agreements

Pursuant to the Master Sales Agreements dated 17th April, 2000, Beijing Tianqiao and Tian Mu agreed to purchase all its network security products and GPS application system and related products, respectively from the Company for a period of 10 years.

(g) Rental agreements

The Company has entered into various rental agreements and rental transfer agreement extending to December 2002 with outstanding commitments of approximately RMB3.0 million.

(h) Share Option Scheme

The Company's share option scheme was conditionally approved by the written resolution of shareholders on 5th July, 2000. Under the share option scheme, the board may, at its discretion, grant share option in aggregate not exceeding 30% of the Company's share in issue at the date of grant, to any full-time employees of the Company and its subsidiaries, if any. 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.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the Predecessor Entities comprising the Company in respect of any period subsequent to 31st December, 1999. In addition, no dividend has been declared, made or paid by the Company or Predecessor Entities comprising the Company in respect of any period subsequent to 31st December, 1999.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants