



浙江浙大網新蘭德科技股份有限公司

ZHEDA LANDE SCITECH LIMITED*

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

Annual Report 2002

** for identification purpose only*

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This annual report, for which the directors of Zheda Lande Scitech Limited (the “Company”) 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 of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Chen Ping (*Chairman*)

Mr. Zhao Jian

Mr. Xue Shi Cheng

Mr. Chen Chun

Mr. Bao Shu Xin

Independent non-executive directors

Mr. Cai Xiao Fu

Mr. Zhang De Xin

Mr. Wang Yue Hao

SUPERVISORS

Supervisors

Mr. Wang Wei Li

Mr. Li Yao Ting

Mr. Fu Liang Yuan

Independent supervisors

Mr. Gu Yu Lin

Mr. Feng Pei Xian

AUTHORISED REPRESENTATIVES

Mr. Chen Ping

Ms. Chan Ching Yi, Yvonne ACCA

COMPLIANCE OFFICER

Mr. Xue Shi Cheng

QUALIFIED ACCOUNTANT

Ms. Chan Ching Yi, Yvonne ACCA

COMPANY SECRETARY

Ms. Chan Ching Yi, Yvonne ACCA

AUDIT COMMITTEE

Mr. Zhang De Xin

Mr. Cai Xiao Fu

REGISTERED OFFICE

4th floor

108 Gu Cui Road

Hangzhou City

The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN CHINA

1/F-3/F, Block 3

108 Gu Cui Road

Hangzhou City

The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1803-1807

Sun Hung Kai Center

30 Harbour Road

Wanhchai

Hong Kong

CORPORATE INFORMATION

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716, 17th floor
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Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

LEGAL ADVISERS

Li & Partners Solicitors
22nd floor
World Wide House
Central
Hong Kong

SPONSOR

Core Pacific – Yamaichi Capital Limited
36th floor
COSCO Tower
Grand Millennium Plaza
183 Queens Road Central
Hong Kong

PRINCIPAL BANKER

Shanghai Pudong Development Bank
Hangzhou Branch
129 Yanan Road
Hangzhou City
Zhejiang
The People's Republic of China

INVESTOR RELATIONS CONSULTANT

Porda International (Finance) PR Co., Ltd.
10th Floor
Tower 1, Tern Centre
237 Queen's Road Central
Hong Kong

STOCK CODE

8106

CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the board of directors of Zheda Lande Scitech Limited ("Zheda Lande" or the "Company") the first annual report of the Company and its subsidiaries (together the "Group") since its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3rd May, 2002.

The overall development of the Group had a giant step forward in 2002. Substantial progress was seen in every aspect from product development and business expansion to marketing and capital utilisation. On top of all, Zheda Lande became the first Zhejiang private enterprise listed on GEM. It issued 112,125,000 H shares and raised a net proceed of approximately HK\$80 million.

The Group's results for the past financial year are satisfactory. We are pleased to announce that the Group recorded a net profit of approximately RMB11,520,000 on a turnover of approximately RMB95,458,000 for the year ended 31st December, 2002, which was approximately 49% higher than last year. The directors do not recommend the payment of a final dividend for the financial year ended 31st December, 2002.

BUSINESS REVIEW

Product and Technology Development

After listing, as mentioned in the Prospectus, the Group undertook to enhance and develop its products for data communication solutions and telecom operation solutions. With the allocation of additional resources, this has largely been completed. Testing has been conducted on customers' premises and the systems are already up and running. The R&D achievements on the telecom operation analysis system and the broadband operation support system are particularly



encouraging. Besides, other solution products of the Group, including the telecom information system, telecom CRM products, the telecom integrated billing system, and wireless value-added services and products, are being marketed to users, and the results so far have been very successful. The Group has also made substantial investment in e-government services, laying down a solid foundation for its entry in the market.

In 2002, the Group also obtained the certification of Computer Information System Integration Grade II Quality (電腦資訊系統集成二級資質) from the Quality Certification Center under the Ministry of Information Industry of the PRC (國家信息產業部資質認證中心). Meanwhile, the Group's broadband management platform was also validated as specialised software by the Zhejiang Province.

CHAIRMAN'S STATEMENT

Market and Business Development

The Group has been dedicated to the provision of quality products and value-added services to domestic telecom operators. During the report period, the Group secured additional contracts from various provincial telecom operators including Shanghai Unicom, Jiangxi Mobile, Guizhou Mobile, Yunnan Mobile, Guangxi Unicom, Hubei Unicom, Ningbo Netcom, Dalian Netcom, Qinghai Telecom and the Northern China Division of China Telecom. Distribution networks were also established in various cities and provinces.

Far from being complacent, the Group finds itself more aggressive than ever in exploring new ventures to generate better earnings. During the report period, the Group had set foot in the market of e-government services, making itself the pioneer in supplying e-government services systems for the health and family planning administration sectors. At the same time, the Group had also started its operations of public wireless communications and wireless terminals, and set a new direction for its future business development.



CHAIRMAN'S STATEMENT

Capital Utilisation

In order to achieve an effective capital utilization, and for the continued development of the Group in terms of product development, business expansion and marketing operation, the Group undertook a series of strategic investment during the report period.

In the area of product development, the Group successfully took over all the assets and businesses of Ningbo Songyan (寧波松岩), which has brought to the Group a pool of quality technical personnel and enhance its competing power in the development of software products for telecom operation support solutions. In the area of business expansion and marketing operations, the Group formed Guangzhou Landi Electronic Information Technology Limited (廣州蘭笛電子信息技術有限公司) jointly with Nanning Feishitong Broadband Network Technology Services Limited (南寧飛時通寬帶網絡技術服務有限公司) to develop the southern China market. At the same time, the Group established Hefei Lande Tongling Technology Limited (合肥蘭德通靈科技有限公司) jointly with Hefei Zhengxun Wireless Communication Services Centre (合肥政訊無線電通信服務中心) for the operation of public wireless communications and development of the e-Government business. In addition, the Group acquired Hangzhou Lande Xinyi Information Technology Limited (杭州蘭德新易信息技術有限公司), "Lande Xinyi" to develop the market of e-government services. The Group also formed Zhejiang Lande Sichuang Information Technology Limited (浙江蘭德思創信息技術有限公司) jointly with Lande Xinyi, which will specialize in the sale of IBM software and the provision of technical support and training services.

Strategic Alliances

Strategic partners of the Group are all crème de la crème in the domestic and overseas information technology industries. Such alliances not only means a boost to the Group's product development capability, but also enhances its market development and brand recognition. All these are beneficial for the overall development of the Group. During the report period, the Group became a member of IBM's strategic alliance in the Greater China Region (IBMTA). At the same time, it made a great effort in strengthening the business cooperation and alliance with Cisco, CA and Oracle.

Future Prospects

The Group will continue to expand its core telecom system products and step up its product and technology developments, in particular its engagement in the operation of wireless value-added services and e-government services. Based on market conditions, it will also undertake to develop such products with sound potential, like videoconferencing systems. The Group will also seek suitable targets for investments and/or acquisitions so as to complement its business development. As far as corporate administration is concerned, the Group will concentrate its efforts on cost control so as to maintain its profitability for its future business development.



CHAIRMAN'S STATEMENT

APPRECIATION

Last but not least, I would like to take this opportunity to express my gratitude to all the shareholders and investors for their support. My thanks also go to all the directors and other staff of the Group for their dedication and contribution. In the future, the management will continue to apply itself to the provision of quality data communication products and operation support systems for the China communications industry, as well as to lead the Group to increase its presence in the e-government services market. By doing so, it hopes to generate greater returns to the shareholders and investors against the backdrop of an ever growing communications market.

Chen Ping

Chairman

25th March, 2003, Hangzhou, the PRC

MANAGEMENT DISCUSSION AND ANALYSIS



the country to increase market share, an alteration in net profit of the Group was reasonable.

2. Product development

During the report period, there was substantial progress in the Group's telecom OA system. Further standardisation was achieved. Besides, specific software were

OPERATION REVIEW

1. Review of operating results for the year

For the year ended 31st December, 2002, the audited turnover of the Group was approximately RMB95,458,000, representing a growth of approximately RMB31,568,000, or approximately 49% as compared with that of 2001.

The audited net profit of the Group for the year ended 31st December, 2002 was approximately RMB11,520,000, representing a decrease of approximately RMB3,319,000, or approximately 22% as compared with that of 2001.

The adjustment in net profit was attributable to (1) fierce market competition; (2) prudent business strategy and (3) increase in operation expenses. Regarding the fierce market competition, the Group had slightly adjusted its market price to a more competitive level so as to maintain its competitiveness. Besides, the Group had also adopted a prudent attitude in choosing quality clients to achieve higher quality assurance. As the Group had been putting substantial financial resources in expanding the distribution network in



developed and launched for the Unicom and China Mobile networks. Such products are being adopted by users. As for the software for the China Telecom network, their launch has been delayed due to market conditions.

During the report period, the Group had increased R&D resources to the realm of telecom CRM products. Test run was conducted in Shenzhen Unicom. Meanwhile, progress was also achieved in the development of telecom operation analysis systems. Besides, the Company worked with other enterprises in developing the telecom integrated billing system by incorporating the technology of e-commerce systems. Orders were secured from China Telecom and are being executed.

MANAGEMENT DISCUSSION AND ANALYSIS

In the same period, in line with its R&D needs, development capability for the broadband operation support system was consolidated and strengthened. The new version OSSv2 was developed.

The Group also made huge investment of financial and human resources in e-government services during the report period. Initial success was achieved, and a solid foundation was established for the Group's foray into the e-government services market in the future.

In addition, during the report period, the Group increased its investment in wireless value-added services and wireless value-added operation in accordance with market demand. Improvement was gained in this area. In the coming year, the Group will continue to step up its investment in wireless



value-added operation.

3. Marketing and business development

The Group has been dedicated to the provision of quality products and value-added services to domestic telecom operators. During the report period, the Group secured additional contracts from various provincial telecom operators including Shanghai Unicom, Jiangxi Mobile, Guizhou Mobile, Yunnan Mobile, Guangxi Unicom, Hubei Unicom, Ningbo Netcom, Dalian Netcom, Qinghai Telecom and the Northern China Division of China Telecom. Distribution networks were also established in



various cities and provinces.

During the report period, the Group had also set foot in the market of e-government services, making itself the pioneer in supplying e-government services systems for the health and family planning administration sectors. At the same time, the Group had also started its operations of public wireless communications and wireless terminals, and set a new direction for its future business development.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Material investments

The Group undertook a series of strategic investments in the year, which enabled the continued development of the Group in terms of product development, business expansion and market operation:

Ningbo Songyan (寧波松岩)

The Group took over all the assets and businesses of Ningbo Songyan (寧波松岩), which has brought to the Group a pool of quality technical personnel and facilitate its development of software products for telecom operation support solutions.

Hangzhou Lande Xinyi Information Technology Company Ltd. (杭州蘭德新易信息技術有限公司, "Lande Xinyi")

During the year, the Group acquired 85% shareholdings in Hangzhou Xinyi (杭州新易) at a consideration of RMB2,000,000. Hangzhou Xinyi was subsequently renamed to Lande Xinyi. It is principally engaged in the development of e-government services.

Guangzhou Landi Electronics Information Technology Company Ltd. (廣州蘭笛電子信息技術有限公司, "Guangzhou Landi")

Guangzhou Landi was formed by the Group jointly with Naning Feishitong Broadband Network Technology Services Limited (南寧飛時通寬帶網絡技術服務有限公司) with capital contribution of RMB1,005,000 from the Group for 67% shareholdings. Guangzhou Landi is mainly engaged in the development of the southern China market.

Zhejiang Lande Sichuang Information Technology Company Ltd. (浙江蘭德思創信息技術有限公司, "Lande Sichuang")

The Group formed Lande Sichuang jointly with Lande Xinyi during the year. Capital contribution in Lande Sichuang directly and indirectly made by the Group totalled RMB9,925,000 with a shareholding of 99.25%. Lande Sichuang will specialize in the sale of IBM software and the provision of technical support and training services.

Hefei Lande Tongling Technology Company Ltd. (合肥蘭德通靈科技有限公司, "Lande Tongling")

The Group established Lande Tongling jointly with Hefei Zhengxun Wireless Communication Services Centre (合肥政訊無線電通信服務中心) in the year with a capital contribution of RMB1,500,000 for 75% shareholding. Lande Tongling is principally engaged in public wireless communication business and wireless terminals business and is exploring the business of e-government services.

All the above subsidiary companies, except Guangzhou Landi which incurred a small loss for the year ended 31st December, 2002, had started to contribute profit to the Group.

5. Employee information

- As at 31st December, 2002, the Group has approximately 320 (2001: 150) employees in total and the total staff costs incurred by the Group for the year amounted to approximately RMB9,400,000 (2001: RMB2,300,000).

MANAGEMENT DISCUSSION AND ANALYSIS

- The Group employs the target remuneration system. Each employee will be assigned an achievement target in accordance with their respective abilities, which will in turn form the basis to determine his/her annual target remuneration. Staff appraisal will be carried out quarterly. If the employee fails to meet the target, his/her remuneration will be cut accordingly. If the employee's performance is above the target, his/her salary will be increased accordingly. If the employee's performance is always above the target, his/her annual target remuneration will be revised upward accordingly. Through the quarterly staff appraisals and corresponding salary adjustments, employees' income is directly linked to their work performance. The employees will have the motivation to improve their performance and the Group can secure its achievement target. The Group believes that the target remuneration system fully embodies the people-oriented spirit of high technology enterprises and places the Group in a leading position in the industry.
- The Group has not issued any share option nor any bonus plan.
- In order to improve the technical and managerial knowledge of the staff, so as to extend their development potential and to strengthen their sense of belonging, the Group strives to provide training opportunities to its staff. During the year, the Group organized a comprehensive "New

Staff Training Course" for new staff. The Group also provided a series of outsourced training programs for its technical staff, covering "WEBLOGIC", "Internet Security and Protection Technology", "Documents Labeling Reform and e-Document Management", "ISO9001-2000 Quality Management System", "NOPOWER Technology", "Software Development Management and Outsourcing", "EMC Products", "SOLARIS System Management", "LDAP" and the related software development technologies. The Group also organized the "LOTUS Application Training" for its technical staff. Training courses on "Practical Contract Laws" and "Target Management and Team Spirit" were also provided to its marketing staff and management team respectively.

FINANCIAL REVIEW

- The Group has maintained sound financial conditions. For the year ended 31st December, 2002, the Group was mainly financed by funds generated from operations and the proceeds from the issue and listing of new shares on GEM.
- As at 31st December, 2002, the Group's cash and bank balances amounted to approximately RMB62,497,000 (2001: RMB17,997,000).
- As at 31st December, 2002, the Group had outstanding unsecured short term borrowings amounted to RMB10,000,000 (2001: RMB20,000,000), bearing interest at an annual rate of 4.779% (2001: 6.435%) and no non-current borrowings (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

- As at 31st December, 2002, the Group had a total asset value of approximately RMB193,839,000 (2001: RM69,311,000).
- As at 31st December, 2002, the Group had current liabilities of approximately RMB59,292,000 (2001: RM33,061,000).
- As at 31st December, 2002, the Group had shareholders' equity of approximately RMB130,389,000 (2001: RMB35,668,000).
- As at 31st December, 2002, the Group had minority interests of approximately RMB4,158,000 (2001: RMB550,000).
- As at 31st December, 2002, the Group had a gearing ratio (the ratio of liabilities to total assets) of approximately 31% (2001: 48%).
- As at 31st December, 2002, the Group had a current ratio (the ratio of current liabilities to current assets) of approximately 33% (2001: 51%).
- Since all of the Group's revenue is received in Renminbi and its expenses are paid in Renminbi, the Directors do not consider that the Group is exposed to any material foreign exchange risk.
- As at 31st December, 2002, the Group had outstanding discounted notes of RMB25 million. Save as this, the Group had no contingent liabilities (2001: Nil).
- As at 31st December, 2002, there were no charges on the assets of the Group (2001: Nil).

FUTURE PROSPECTS

1. Orders in hand

The Group has orders in hand totaling not less than RMB36,800,000. Major orders include the provision of enterprise information systems for Zhejiang Unicom and Zhejiang Mobile, the e-commerce system for the Northern China Division of China Telecom, and the operation analysis system for Qinghai Telecom.

2. Prospects of new businesses and new products

The Group's telecom support systems are divided into two major product lines, new generation integrated sales systems (BSS) and telecom corporate analysis systems.

Following the split of China Telecom Group, competition between telecom operators is getting more and more fierce. The traditional business-oriented operation mode can no longer cope with market demand. There is strong pressure on telecom operators to adopt a customer-oriented operation mode. Pro-active marketing activities are much needed to vie for a bigger share of the limited customer base. The systems developed by the Group came into existence under such market environment. They are being used by the Northern China Division of China Telecom, and the response so far is very good. Up to date, orders for such systems have been mainly for two projects of the division. Meanwhile, Southern China Telecom (南方電信) has formed a unit called BPR, to restructure its traditional operation mode. The Group is involved in the projects for Qunming Telecom, a test point of China

MANAGEMENT DISCUSSION AND ANALYSIS

Telecom. Currently, telecom operators are pouring their investments in reengineering and integrating their systems. Based on the existing market research and the current operation mode, the Group is staying ahead in terms of technology.

Telecom operation analysis systems provide robust data support for decision making on marketing strategies. To date, China Telecom, China Unicom and China Netcom have all set aside provisions for such investments in their budgets.

The development and improvement of information systems involve the following:

Improve and standardise enterprise information systems by combining the versions for China Mobile and for China Unicom and develop the one for China Telecom. The aim here is to realise uniformity in the industry.

Gradually extend the product range at the same time. Apart from penetrating the market for office automation systems, the Group will also systematically explore the markets for application systems for knowledge management, online education, ERP, business process management and enterprise portals.

Knowledge management and online education is made possible through information accumulation with the help of enterprise information systems. Such wealth of knowledge can then provide the basis for online learning and exchange. Information systems for ERP and business process management gather business data and perform business

information processing. Enterprise portals will become part of a unified enterprise information system platform to provide a standard working environment for users.

The above systems can be integrated into all kinds of information systems employed by the telecom industry.

In 2003, the Group will strive to secure contracts for the second phase of the existing projects of China Mobile. For the projects in Zhejiang, Yunnan, Jiangxi and Guizhou, the Group has already signed contract for the phase 2 project of Zhejiang Mobile. The other three provinces also have plans for the implementation of phase 2 projects. In the case of Yunnan, the commercial negotiation for the phase 2 project of Yunnan Mobile has already completed and is pending for approval.

Meanwhile, China Mobile will expand its market reach in such provinces that are going to introduce mobile network or proceed to the second phase. Guangxi Mobile and Hainan Mobile are among the major customers. At the same time, with the PORTAL projects undertaken by China Mobile, the Group will explore the existing OA market step by step.

China Unicom

As the Group is among the first manufacturers appointed by the headquarters of China Unicom for the projects of Zhejiang Unicom. As such, the situation in this market is quite promising. In addition, trial runs have also begun in Tianjin Unicom and Guizhou Unicom. Projects for Guangxi Unicom, Jiangxi Unicom, Fujian Unicom, Henan Unicom,

MANAGEMENT DISCUSSION AND ANALYSIS

Gansu Unicom and Chongqing Unicom are also pending for approval from the headquarters. The Group has good chance in securing the above contracts. It also believes that it stands a good chance of winning contracts from Jilin Unicom, Shanxi Unicom, Inner Mongolia Unicom, Jiangsu Unicom, Anhui Unicom and Shanghai Unicom.

China Telecom

In 2003, the Group will focus on market penetration for the projects of China Telecom. Existing projects supplied by the Company include the Northern China Division of China Telecom, Jiangxi Telecom and Zhejiang Telecom. In particular, the Northern China Division of China Telecom presents immense market potential in its foothold covering nine provinces plus one city. Projects of Jiangxi Telecom are also what the Group will eagerly compete for in the coming year.

Others

The Group will also step up its efforts in securing the contracts from the projects of China Netcom. Projects of Zhejiang Netcom, Chongqing Netcom and the headquarters of China Netcom are under negotiation.

3. New investment projects and source of funding

The Group plans to invest RMB2 million to set up Guangdong Lande Company (廣東蘭德公司) to explore the government and telecommunications sectors in the southern China region, and to develop the markets for e-Government services and telecom operation support system, investment of which will be financed by internal resources.

BUSINESS OBJECTIVES REVIEW

COMPARISON OF ACTUAL BUSINESS PROGRESS WITH THE BUSINESS OBJECTIVES

The following is a summary comparison of the actual business progress for the period from 15th April, 2002, being the latest practicable date prior to the printing of the Prospectus of the Company dated 24th April, 2002 (the "Prospectus") to 31st December, 2002 (the "Review Period") with the business objectives as set out in the Prospectus.

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Product enhancement and development		
<i>Data communication solutions</i>		
	Enhance the quality of the wireless communication system on the UNIX OS platform	The wireless communication system, which is based on SOLARS operating system on SUN platform, has passed the testing stage
	Release the workstation version of the wireless communication system of higher stability and larger capacity	The development of the product has been completed. The product has been launched
	Enhance the quality of the data switch platform that supports CTI, IVR	Substantially completed
	Standardise the gateway link of the data switch platform and enhance its processing power	Substantially completed
	Launch the enhanced version of the wireless value-added services system that is compatible with the data switch platform	Launched, and used by a number of customers

BUSINESS OBJECTIVES REVIEW

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
	Launch an urban call center service system that enables household management and online shopping	Completed
	Release a large capacity e-mail system prototype that is compatible with various multi-media environment	Products with short message and voice mail functions have been launched, and used by customers
	Release a broadband web-based large capacity e-mail system	Completed
	Develop a video-conferencing enabling system	The development has been postponed due to market changes (<i>Note 1</i>)
	Launch the video-conferencing enabling system	The development has been postponed due to market changes (<i>Note 1</i>)
Telecom operation support solutions	Develop a standardized telecom OA system	The product has been successfully developed and will be used in Zhejiang Mobile as a model project
	Develop an integrated data management system	Development of integrated information management system has started and trial run has begun in customers' premises
	Enhance Internet traffic and the quality of monitoring and billing system	Completed the upgrade of monitoring and billing system, the development of broadband OSSv2 has been completed

BUSINESS OBJECTIVES REVIEW

Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
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Launch a broadband network management system	Launched, and used by users
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Launch an online telecom e-commerce system to provide a more efficient billing and operation platform to telecom operators	Launched, and used by a number of branch offices of China Unicom
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Enhance the quality of the online telecom e-commerce system	Launched, and the products tailored for China Telecom and China Unicom are being used by users
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Sales and marketing

Data communication solutions

Conduct direct sales activities at all provincial telecommunications companies	Carried out direct sales activities in about 20 provinces and cities, established Beijing and Hubei branch offices and appointed regional managers
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Establish and expand distribution network through the opening of provincial sales offices	Carried out direct sales activities in about 20 provinces and cities, established Beijing and Hubei branch offices and appointed regional managers
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Establish joint sales efforts with other domestic wireless communication system providers	Postponed to 2003 (Note 2)
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Launch major marketing campaigns on wireless value-added systems	Postponed to 2003 (Note 2)
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BUSINESS OBJECTIVES REVIEW

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
	Practise bundled selling	The Group launched a series of bundled solutions such as wireless value-added services systems and email systems, which offer total solutions to customers and are widely accepted
Telecom operation support solutions	Conduct direct sales activities at most provincial telecommunications companies	Carried out direct sales activities in about 20 cities and provinces, established Beijing and Hubei branch offices and appointed regional managers
	Establish and expand distribution network through the opening of provincial sales offices	Carried out direct sales activities in about 20 cities and provinces, established Beijing and Hubei branch offices and appointed regional managers
	Promote a variety of telecom OA systems	Promoted the products to telecom operators around the country through publishing monthly magazine of the Group; publishing product brochures for distribution to customers; carrying out advertising, such as a half-yearly coverage in the Computer World, to reach potential customers; undertook direct promotion by the marketing team
	Focus on the promotion of telecom OA systems	Have commenced direct selling across the whole country
	Promote integrated telecom operation solutions	Have been undergoing direct promotion by the marketing team

BUSINESS OBJECTIVES REVIEW

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Strategic investments and business collaborations		
Data communication solutions	Establish joint-sales efforts with other domestic wireless communication system providers	The Company commenced co-operation with IBM in the area of e-commerce, customer service, wireless application and decision support, following the granting of "SP" qualification by Shanghai IBM
	Establish strategic alliances with telecom operators to develop the wireless value-added market	The Group has further consolidated the operation relationship with Zhejiang Unicom and at the same time has commenced the development of markets in other provinces
	Strengthen the relationship with Zhejiang University in respect of the sourcing of technical human resources and developing telecommunications software	Introduced certain staff from Zhejiang University; the R & D center continued to make its R & D contribution to the Group
Telecom operation support solutions	Establish strategic alliances with suppliers to promote the sale of broadband Internet CRM systems	Postponed to 2003 (Note 2)
	Jointly develop the residential network through strategic alliances	The development has been postponed due to sluggish market demand (Note 1)
	Establish a strategic alliance with IBM on the development of the e-commerce platform	The Group has become the only one strategic alliance of IBM within the Greater China Region in the area of e-commerce

BUSINESS OBJECTIVES REVIEW

Employment of human resources

<i>Number of employees</i>	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Management	15	24
Research and product development	145	221
Sales and marketing	30	45
Administration and finance	20	30
	210	320

Use of proceeds

	<i>RMB'000</i>	<i>RMB'000</i>
Product enhancement and development	7,600	10,000
Sales and marketing	6,400	8,000
Strategic investments and business collaboration	13,000	14,500
General working capital	1,600	2,500
	28,600	35,000

Notes:

- (1) In accordance with the changes in market conditions, the development of video-conferencing enabling system and residential network has been postponed.
- (2) The business objectives as stated in the Prospectus was based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. In accordance with the actual development of the market, the Group has made corresponding amendments to its business objectives. Certain activities of the Group, such as establishing large-scale joint sales activities with other manufacturers, launching major marketing campaigns on wireless value-added services systems and establishing strategic alliances with suppliers to promote the sale of broadband Internet CRM systems, have been delayed to the following year. This led to the deviations between the actual business progress for the Review Period and the business objectives as set out in the Prospectus.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Chen Ping, 39, is the chairman and the president of the Company, an advisor to students seeking their master degree and an associate professor at Zhejiang University. Mr. Chen spends on average 5 to 10 hours per week to supervise his R&D students at the Research Center. As the president, Mr. Chen is responsible for the daily management of the Group. Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University with a bachelor degree and a master degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University, Mr. Chen has been involved in the R&D of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University for 7 years up to 1997. Mr. Chen has published two computer networking academic textbooks and professional technology magazines in China and has published more than ten of his academic papers. Mr. Chen joined the Group in May 1997.

Mr. Zhao Jian, 37, is a director, a vice chairman and senior engineer of the Company and the president of Zhejiang University Innovation Information Holdings Company Limited ("Zhejiang Innovation"). Mr. Zhao graduated from the School of Business Administrations at Zhejiang University with a master degree in January 1991. Before joining the Group in June 2001, Mr. Zhao served as a director and the vice president of Zhejiang Zheda Haina Technology Company Limited (浙江浙大海納科技股份有限公司), a listed company on the Shenzhen Stock Exchange that is involved in the

R&D, manufacturing and sales of semi-conductors and automated control systems, and conducting investment management. Mr. Zhao was also the executive of the Software Industry Association of Zhejiang, the vice director of the Professional Commission of Computing Engineering and Application of Zhejiang Electronics Association and the vice chairman of the Computing Industry Association of Zhejiang where he served as the representative to attend regular meetings. Mr. Zhao does not participate in the daily management of the Group and only serves as representative from Zhejiang Innovation to occasionally supervise, provide consultation service and introduce potential business partners to the Group.

Mr. Xue Shi Cheng, 39, is the vice chairman of the Company. Mr. Xue graduated from Zhejiang Agricultural University in July 1987 and has previously worked for the State Science & Technology Commission and the Ministry of Internal Trade. Moreover, Mr. Xue has served as the deputy secretary-general of Beihai Government, the vice president of Beijing Guoheng High Technology Holding Co., Ltd. ("Beijing Guoheng"), the chairman of Beijing TianXiang Garden Bio-tech Investment Co. and the vice executive chairman of Venture Capital Association of Beijing where he was involved in the seeking and co-ordination of investments. Mr. Xue has been involved in the investment and capital management of high technology products in the PRC and is particularly experienced in the investment of startup companies, the capital reorganisation of high-tech enterprises, mergers and acquisitions and promoting companies to be listed on the stock exchanges. Mr. Xue does not participate in the daily management of the Group and only serves as representative from Beijing Guoheng to occasionally supervise, provide consultation service and introduce potential business partners to the Group. Mr. Xue joined the Group in April 2001.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Chun, 48, is a director of the Company, the supervisor of the Research Center, a professor of Zhejiang University, an advisor to doctorate students, the vice principal of Zhejiang University's College of Information Science and Technology, the supervisor of Zhejiang University Computing Software Research Institute and a supervisor of Zhejiang University's Department of Computer Science and Technology where he taught and conducted lectures and relevant R&D. Mr. Chen graduated from Zhejiang University with a doctorate degree in computer applications in June 1990. Mr. Chen was a senior visiting scholar of Computer Science at the University of Calgary in Canada during the period from March 1996 to March 1997.

Mr. Chen was awarded the National Science and Technology Advancement Third Prize in December 1996, the Zhejiang Province Science and Technology Advancement Second Prize in February 1991, the Textile Association Technology Second Prize in December 1995, and The Second Youth Prize of Science and Technology in May 1992. Mr. Chen has been one of the major technology contributors in Zhejiang Province and was recognised as a pioneer of technology among elite teenagers in Zhejiang Province. Mr. Chen does not participate in the daily management of the Group and only serves as representative from Zhejiang Qware Information Technology Investment & Consulting Company Limited to occasionally supervise, provide consultation service and introduce potential business partners to the Group. Mr. Chen joined the Group in April 2001.

Mr. Bao Shu Xin, 33, is a director and vice president of the Company and an engineer. Mr. Bao graduated from Zhejiang University's Department of Computer Science and Technology with a bachelor degree and a master degree in business administration in July 1992 and March 2001, respectively. Upon graduation, Mr. Bao pursued his career

at the Zhejiang Research Institute of Computing Technology, where he conducted marketing activities, and later joined the Group in February 1998. Mr. Bao is mainly responsible for the marketing of the telecommunications solutions and products, which includes conducting market assessment, strategic planning, business development and liaising with potential clients.

Independent non-executive directors

Mr. Cai Xiao Fu, 64, is a senior engineer and the chairman of Zhejiang Software Industry Association, overseeing the development of Zhejiang Province's IT industry. Mr. Cai graduated from Tsing Hua University's Department of Control Automation in July 1963 and attended Cranfield Institute in the United Kingdom during October 1981 to January 1984 to conduct research on aeronautics and computer simulation devices. Mr. Cai joined the Group in October 2001.

Mr. Zhang De Xin, 73, graduated from the Department of Electrical Engineering at Zhejiang University in July 1953 and Tsing Hua University in June 1956 and attended Illinois Institute of Technology in the United States during June 1982 to May 1984 to conduct research in the fields of Electrical Engineering and Computer Science. Professor Zhang has served as a professor at Zhejiang University's Department of Electrical Engineering, Department of Electronics Engineering and Department of Computer Science and Technology for 37 years since 1956 and a Committee of Zhejiang Political Consultative Conference for two terms in 1988 and 1993. Moreover, Professor Zhang has been involved in numerous research projects and studies in computing networks. Professor Zhang is also a three-time award winner of the Zhejiang Province Science and Technology Advancement Award in 1989, 1991 and 1993. Mr. Zhang joined the Group in October 2001.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Yue Hao, 38, is a senior partner, director, vice general manager and senior accountant of Zhejiang Tianjian Accounting Firm (浙江天健會計師事務所). Mr. Wang is also a guest lecturer at Hangzhou University of Commerce and a part-time finance professor at Zhejiang University of Finance and Economics. Mr. Wang graduated from Shanghai University of Finance and Economics with a master degree in Management in January 1999. Mr. Wang is a member of the China Institute of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Wang joined the Group in October 2001.

SUPERVISORS

Supervisors

Mr. Wang Wei Li, 26, is a supervisor and assistant engineer of the Company. Mr. Wang graduated from Shantou University's Department of Electronics Engineering in Guangdong Province in June 1998. Mr. Wang was involved in the development and implementation of the Company's wireless communication coding system and the FLEX system. Mr. Wang joined the Group in July 1998.

Mr. Li Yao Ting, 33, graduated from Wang Shigang School of Professions in June 1993. Mr. Li is currently the assistant manager of the Comprehensive Management Department of the Company and is responsible for monitoring human resources. Mr. Li joined the Group in May 2001.

Mr. Fu Liang Yuan, 47, supervisor. He has taught in the Faculty of Commerce at Shanghai Polytechnic University. Mr. Fu joined the Shanghai Huazhan Group Company Limited, a company that conducts industrial investment, in 1999 and worked as the assistant of director and manager

of the financial department. Mr. Fu was fully responsible for the work in the finance department of such Group and at the same time monitors work in the investment department. Mr. Fu had previously served as the financial director of Huatong International Group Company Limited headquartered in Shanghai since August 2000 for 8 months. Mr. Fu joined the Group in April 2001.

Independent supervisors

Mr. Gu Yu Lin, 33, is responsible for performing a supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the Shareholders in general meetings of the Company. Mr. Gu is an assistant accountant. Mr. Gu graduated from Fudan University majoring in Finance and Accounts in June 1997. Mr. Gu is currently working in the principal office of Zhejiang University. Mr. Gu joined the Group in October 2001.

Mr. Feng Pei Xian, 66, is responsible for performing a supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the Shareholders in general meetings of the Company. Mr. Feng is graduated from Shantong Industrial Institute. Mr. Feng was the deputy chief engineer of the 52nd Research Institute of Electronics of Ministry of Information Industry and Chief Editor of "External Computing Equipment". Mr. Feng is now the Chief Secretary of the Zhejiang Computing User Association and Reporter Officer of the China Computing News in Zhejiang. Mr. Feng joined the Group in October 2001.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Jin Lian Fu, 56, is the vice-president of the Company, an associate professor at Zhejiang University's Computer Science and Technology Department and an advisor to Master students. Mr. Jin graduated from Zhejiang University's Department of Applied Mathematics. He has been involved in various research and development of computing networks and operating systems. Mr. Jin was awarded the Nation's Science and Technology Advancement Third Prize in 1992 and various awards on software applications from 1992 to 1995. Mr. Jin has served as a vice supervisor of Zhejiang University's Management Information Office and supervisor of the Office Automation Research Laboratory. Mr. Jin joined the Group in November 1996.

Mr. Wang Lei Bo, 29, is the vice-president of the Company. He graduated from Zhejiang University's Computer Science and Technology Department with a Master degree. Mr. Wang has been involved in the R&D of telecommunications systems since 1997, particularly on wireless communication platforms, data switch platforms and customer services supporting systems. Mr. Wang joined the Group in May 1997.

Ms. Liu Qiao Ping, 30, is the vice-president and the Secretary of the Board of the Company. She graduated from the University of Petroleum. Ms. Liu joined the Group in April 1998.

Mr. Chen Wei, 39, is the vice-president of the Company. Mr. Chen graduated from the Faculty of Surveying of the Zhejiang University of Technology in 1987. He has served as the deputy general manager of 杭州中程計算機有限公司 and 浙江浙大網新電子信息有限公司. Mr. Chen joined the Group in January 2003.

Mr. Xu Yue Fei, 40, is the vice-president of the Company. Mr. Xu graduated from the Faculty of Radio Electronics of Peking University and holds a master degree. He has served as the Chief Operation Officer of 北京朗路網絡有限公司 and the vice-president of Capital Networks Co., Ltd. in Beijing. Mr. Xu joined the Group in January 2003.

Ms. Chan Ching Yi, 28, is the secretary and qualified accountant of the Company. Ms. Chan is an associate member of the Association of Chartered Certified Accountants and has over 5 years of experience in auditing and accounting. Ms. Chan joined the Group in September 2002.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to present their annual report and the audited financial statements of the Group for the year ended 31st December, 2002.

CONVERSION AND LISTING

Hangzhou Land E & I Technology Limited (the "Predecessor"), the predecessor of the Company, was established on 13th November, 1996. The Company was established in the People's Republic of China (the "PRC") on 20th September, 2001 as a joint stock limited company by way of conversion of the Predecessor.

On 4th January, 2002, the China Securities Regulatory Commission (the "CSRC") gave its approval to the Company approving the issue of overseas listed foreign invested shares (the "H Shares") and authorizing the Company to apply for the listing of the H Shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Subsequently, the Company's H Shares were listed on GEM of the Stock Exchange on 3rd May, 2002.

ARTICLES OF ASSOCIATION

The Company held extraordinary general meetings on 15th April, 2002, 20th April, 2002 and 20th September, 2002 respectively to approve and adopt the amended Articles of Association.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the development and sale of software and network system, provision of technical support services and sale of hardware. The businesses of the Company's subsidiaries are set out in note 11 to the financial statements.

An analysis of the Group's turnover and profit from operations by product lines for the year ended 31st December, 2002 is set out in note 1 to the financial statements. All the Group's turnover and profit are originated in the PRC.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31st December, 2002 and its state of affairs as at that date are set out in the financial statements on pages 34 to 78 of the annual report. No interim dividend was declared or paid by the Company. The Board recommends the profit for the year ended 31st December, 2002 be appropriated as follows:

	RMB'000
Transfer to statutory surplus reserve	1,371
Transfer to statutory public welfare reserve	685
	<hr/>
	2,056

The Board does not recommend the payment of a final dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 9 to the financial statements.

BORROWINGS AND INTEREST CAPITALISATION

Details of movements in bank loans are set out in note 17 to the financial statements. The Group did not capitalized any interest during the year.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 18 to the financial statements.

RESERVES

Details of the reserves of the Group and the Company are set out in note 19 to the financial statements.

RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note M to the accounting policies in the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 50% of the Group's turnover and the largest customer of the Group accounted for approximately 13% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 66% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 34% of the Group's direct purchases for the year.

Save as disclosed above, none of the directors, their respective associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in any of the five largest customers and five largest suppliers of the Group for the year ended 31st December, 2002.

FINANCIAL SUMMARY

A summary of the Group's results for each of the four years ended 31st December, 2002 and the Group's assets and liabilities as at 31st December, 1999, 2000, 2001 and 2002 is set out on pages 79 and 80 of the annual report.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Chen Ping
Mr. Zhao Jian
Mr. Xue Shi Cheng
Mr. Chen Chun
Mr. Bao Shu Xin

Independent non-executive directors

Mr. Cai Xiao Fu
Mr. Zhang De Xin
Mr. Wang Yue Hao

Supervisors

Mr. Wang Wei Li
Mr. Li Yao Ting
Mr. Fu Liang Yuan

Independent supervisors

Mr. Gu Yu Lin
Mr. Feng Pei Xian

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a three-year service agreement with the Company, which commenced from 15th October, 2001.

Save as disclosed above, none of the directors or the supervisors has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the directors, supervisors and senior management are set out on pages 21 to 24 of the annual report.

DIRECTORS', SUPERVISORS' AND HIGHEST PAID EMPLOYEES' REMUNERATION

Details of the directors' and supervisors' remuneration and that of the highest paid employees are set out in note 8 to the financial statements.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 2002, except for those shares as set out below, none of the directors, supervisors and chief executives of the Company or their associates had any personal, family, corporate or other interests in the shares of the Company or associated corporations as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance.

The beneficial interests of the directors, supervisors and chief executives in the share capital of the Company are as follows:

Name	Type of interests	Number of shares	Percentage of beneficial interests in the Company's share capital
<i>Directors</i>			
Chen Ping	Personal	36,392,320	10.72%
Bao Shu Xin	Personal	8,643,170	2.55%
Chen Chun	Personal	4,094,130	1.21%

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the year ended 31st December, 2002, none of the directors or supervisors or chief executives was granted options to subscribe for shares of the Company. As at 31st December, 2002, none of the directors or supervisors or chief executives or any of their spouses and children under 18 years of age had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) or to acquire shares of the Company.

COMPETING INTERESTS

None of the directors or the management shareholders (as defined under the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Company had any interest in a business which competes or may compete with the business of the Group or had any other conflicts of interest with the Group.

SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in respect of the directors and supervisors and their associates, as at 31st December, 2002, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10 percent or more of the Company's issued share capital:

Shareholder	Number of shares	Approximate percentage of beneficial interests in the Company's share capital
Zhejiang Qware Information Technology Investment & Consulting Company Limited	34,117,800	10.05%
Beijing Guoheng High Technology Holding Co., Ltd.	34,117,800	10.05%
Zhejiang University Innovation Information Holdings Company Limited	34,117,800	10.05%

REPORT OF THE DIRECTORS

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

CONNECTED TRANSACTIONS

There were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

SHARE OPTION SCHEME

Pursuant to the Company's conditional share option scheme conditionally approved by a resolution of the shareholders of the Company dated 20th April, 2002 (the "Share Option Scheme"), the Company may grant options to any employees (including directors) of the Company or its subsidiaries as incentive or rewards for their contribution to the Group to subscribe for the H Shares in the Company for a non-refundable consideration of HK\$1 for each lot of share options granted payable on acceptance of the option offer. The Share Option Scheme will remain valid for a period of ten years commencing on the date it becomes unconditional. Options granted are exercisable at any time not more than ten years from the date of grant of the options. The subscription price is not less than the higher of (a) the closing price of the Company's H Shares as quoted on the date of the grant of the options, (b) the average closing prices of the Company's H Shares for the five business days immediately proceeding the date of the grant of the options and (c) the nominal value of the H Shares. However, for employees who are PRC national and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

(1) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC national from subscribing for and dealing in H Shares or any laws

and regulations with similar effects have been abolished or removed; and

(2) The CSRC or other relevant government authorities in the PRC have approved the new issue of H Shares upon the exercise of any options which may be granted under the Share Option Scheme.

The total number of H Shares subject to the Share Option Scheme and other share option schemes must not, in aggregate, exceed 30% of H Shares of the Company (or its subsidiaries) in issue from time to time.

The total number of H Shares available for issue under options granted under the Share Option Scheme and any other scheme must not, in aggregate, exceed 10% of the number of the H Shares of the Company (or its subsidiaries) in issue as of the date of approval of the Share Option Scheme. The Company may seek approval from shareholders in general meeting for renewing the 10% limit or for granting further options beyond the 10% limit, provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before such approval is sought.

No option had been granted by the Company under the Share Option Scheme since its adoption.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31st December, 2002.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Company's Articles of Association.

REPORT OF THE DIRECTORS

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited ("Core Pacific – Yamaichi"), neither Core Pacific – Yamaichi nor its directors, employees or associates had any interest in the share capital of the Company as at 31st December, 2002.

Pursuant to the agreement dated 24th April, 2002 entered into between the Company and Core Pacific–Yamaichi, Core Pacific – Yamaichi has received and will receive a fee for acting as the Company's retained sponsor for the remaining period up to 31st December, 2004 or until the sponsor agreement is terminated pursuant to the terms and conditions set out therein.

AUDIT COMMITTEE

The Company established an audit committee in November, 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review the Group's annual report and accounts, half-year report and quarterly reports and provide advice and comments thereon to the Board and to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, Mr. Zhang De Xin and Mr. Cai Xiao Fu with Mr. Cai Xiao Fu as the chairman. The audit committee had held three meetings during the year to review the half-year report, first quarterly report and third quarterly report of the Group.

BOARD PRACTICES AND PROCEDURES

Since its listing on GEM of the Stock Exchange on 3rd May, 2002, the Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDITORS

A resolution to re-appoint PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting to be held on 16th May, 2003.

On behalf of the Board

Chen Ping

Chairman

25th March, 2003, Hangzhou, the PRC

REPORT OF THE SUPERVISORY COMMITTEE

To shareholders:

1. Meeting of the Supervisory Committee in 2002

The Supervisory Committee met once during the report period.

The meeting of the Supervisory Committee in 2002 was held on 13th August, 2002, at which the Committee reviewed the operating results of the Company for the first half of 2002. The Committee also examined whether the Company's directors and senior management had performed their obligations with good faith and due diligence.

2. Supervision and Examination by the Supervisory Committee

During 2002, the Supervisory Committee supervised the work of the Board and daily operations of the Company in accordance with the Company Law, Articles of Association and mandate from the shareholders' general meeting. The Supervisory Committee considered that the Board had implemented the resolutions of the shareholders' general meeting, and that the decision making procedures of the Board had complied with the relevant provisions of the Company Law and Articles of Association. The Supervisory Committee also confirmed that no laws, regulations and Articles of Association had been violated, nor had the interests of the Company been prejudiced by any director or senior management of the Company during the performance of their duties. The Supervisory Committee has examined the operations of the Company and its implementation of internal system through verification of the accounts of the Company. In addition, it has also reviewed the

performance of the directors and senior management. The Supervisory Committee considered that:

1. the notice, convocation and voting procedures of the nine meetings of the Board in 2002, all of which were attended by supervisors, were legitimate, the information provided in the resolutions were sufficient and clear, and the voting procedure was fair and transparent;
2. the internal control system of the Company has been gradually improved in 2002 to further strengthen the structure of the Company, and the Company's directors and managers have performed their obligations with good faith and due diligence, and have not violated any laws, regulations, Articles of Association, nor prejudice the interests of the Company or shareholders during the performance of their duties,
3. the quarterly reports published by the Company in accordance with the GEM rules have reflected the true and fair view of the state of affairs of the Company, and the financial data therein have reflected the accurate, true and fair view of the financial status and operational results of the Company; and
4. the use of proceeds was in consistence with the investment plans set out in the Prospectus, and the capital utilisation was legitimate and efficient and in the best interest of the Company.

REPORT OF THE SUPERVISORY COMMITTEE

3. Highlights for 2003

In 2003, the Supervisory Committee will continue to supervise and examine the Company's operations in accordance with the Company Law, Articles of Association and requirements by the shareholders' general meeting. Work procedures of the Committee will be streamlined to identify and solve problems in a more timely manner, and to facilitate the management and operation of the Company by providing recommendations for improvement.

4. This report will be laid before the shareholders' general meeting 2002 for approval.

By order of the Committee

WANG WEI LI

Chairman of the Supervisory Committee

Hangzhou, the PRC, 25th March, 2003

REPORT OF THE AUDITORS



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF ZHEDA LANDE SCITECH LIMITED

We have audited the accompanying consolidated balance sheet of Zheda Lande Scitech Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of 31st December, 2002 and the related consolidated income and cash flow statements for the year then ended, and the balance sheet of the Company as of 31st December, 2002. These financial statements set out on pages 34 to 78 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company present fairly, in all material respects, the financial position of the Group and the Company as of 31st December, 2002, and the results of operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

25th March, 2003

Hong Kong, the People's Republic of China

CONSOLIDATED INCOME STATEMENT (for the year ended 31st December, 2002)

(All amounts in Renminbi ("RMB") thousands, except for earnings per share)

	Note	2002	2001
Sales, net	1	95,458	63,890
Cost of sales	1	(59,487)	(36,274)
Gross profit		35,971	27,616
Distribution costs		(5,858)	(2,842)
Administrative expenses		(15,515)	(6,766)
Other operating expenses		(96)	(15)
Profit from operations		14,502	17,993
Finance costs, net	2	(1,104)	(198)
Share of results of associates before tax		–	(307)
Subsidy income	3	2,055	–
Other income		618	–
Profit before tax and minority interests	4	16,071	17,488
Income tax expense	5	(2,847)	(2,987)
Profit before minority interests		13,224	14,501
Minority interests	20	(1,704)	338
Net profit	7	11,520	14,839
Earnings per share	6		
– Basic		RMB0.038	RMB0.065

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (As of 31st December, 2002)

(All amounts in RMB thousands)

	Note	2002	2001
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	6,386	2,758
Intangible assets	10	5,904	1,664
Investments in an associate	12	–	–
Other assets		1,714	–
		14,004	4,422
Current assets			
Inventories	13	9,954	5,677
Prepayments and other receivables	14	32,934	9,173
Due from related parties	22(c)	13,247	–
Trade receivables	15	61,203	32,042
Cash on hand and bank deposits		62,497	17,997
		179,835	64,889
Current liabilities			
Other payables and accruals		3,092	924
Current tax liabilities		6,809	3,558
Dividend payable		–	459
Advance from customers		14,770	5,880
Notes payable and trade payables	16	24,621	2,240
Short-term borrowings	17	10,000	20,000
		59,292	33,061
Net current assets		120,543	31,828
Total assets less current liabilities		134,547	36,250

CONSOLIDATED BALANCE SHEET (As of 31st December, 2002)

(All amounts in RMB thousands)

	Note	2002	2001
Non-current liabilities			
Deferred tax liabilities		–	32
Minority interests			
	20	4,158	550
NET ASSETS		130,389	35,668
Paid-in capital/share capital	18	33,958	22,745
Reserves	19	96,431	12,923
SHAREHOLDERS' EQUITY		130,389	35,668

Approved by the Board of Directors on 25th March, 2003.

CHEN PIN

Chairman

XUE SHI CHENG

Executive Director

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

BALANCE SHEET (As of 31st December, 2002)

(All amounts in RMB thousands)

	Note	2002	2001
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	5,192	2,669
Intangible assets	10	5,904	1,664
Investments in consolidated subsidiaries	11	29,842	639
Investment in an associate	12	–	–
Other assets		1,714	–
		42,652	4,972
Current assets			
Inventories	13	6,152	5,093
Prepayments and other receivables	14	14,827	9,351
Due from related parties	22(c)	11,761	–
Trade receivables	15	54,472	31,880
Cash on hand and bank deposits		56,898	16,470
		144,110	62,794
Current liabilities			
Other payables and accruals		2,302	808
Current tax liabilities		6,510	3,672
Dividend payable		–	459
Advance from customer		14,434	4,992
Notes payable and trade payables	16	23,127	2,135
Short-term borrowings	17	10,000	20,000
		56,373	32,066
Net current assets		87,737	30,728
Total assets less current liabilities		130,389	35,700

BALANCE SHEET (As of 31st December, 2002)

(All amounts in RMB thousands)

	Note	2002	2001
Non-current liabilities			
Deferred tax liabilities		-	32
NET ASSETS		130,389	35,668
Paid-in capital/share capital	18	33,958	22,745
Reserves	19	96,431	12,923
SHAREHOLDERS' EQUITY		130,389	35,668

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(For the year ended 31st December, 2002)

(All amounts in RMB thousands)

	Reserves							Total shareholders' equity
	Paid-in capital/ share capital <i>Note 18</i>	Share premium <i>Note 19(a)</i>	Statutory surplus reserve <i>Note 19(b)</i>	Statutory			Retained earnings <i>Note 19(e)</i>	
				public	Tax refund	Other		
				welfare reserve <i>Note 19(c)</i>	reserve <i>Note 19(d)</i>	reserves		
Balance as of 1st January, 2001	500	–	346	227	1,434	–	1,120	3,627
Net profit	–	–	–	–	–	–	14,839	14,839
Increase of paid-in capital during the year	2,206	15,455	–	–	–	–	–	17,661
Profit appropriations	–	–	1,306	1,306	295	–	(2,907)	–
Dividends	–	–	–	–	–	–	(459)	(459)
Capitalisation	20,039	(15,455)	(346)	(227)	(1,729)	–	(2,282)	–
Balance as of 1st January, 2002	22,745	–	1,306	1,306	–	–	10,311	35,668
Donations received	–	–	–	–	–	16	–	16
Issuance of shares	11,213	71,972	–	–	–	–	–	83,185
Net profit	–	–	–	–	–	–	11,520	11,520
Profit appropriations	–	–	1,371	685	–	–	(2,056)	–
Balance as of 31st December, 2002	33,958	71,972	2,677	1,991	–	16	19,775	130,389

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (for the year ended 31st December, 2002)

(All amounts in RMB thousands)

	Note	2002	2001
Cash used in operations:	21(a)	(48,207)	(15,936)
Interest income received		206	74
Interest expenses paid		(1,311)	(241)
Income tax paid		(2,058)	(1,265)
Net cash used in operating activities		(51,370)	(17,368)
Cash flows from investing activities:			
Purchase of property, plant and equipment, intangible assets and other assets		(12,237)	(3,057)
Proceeds from disposal of property, plant and equipment		72	–
Acquisition of a subsidiary	21(c)	(701)	–
Net cash used in investing activities		(12,866)	(3,057)
Cash flows from financing activities:			
Proceeds from short-term borrowings, net of repayments		(10,000)	20,000
Dividends paid		(459)	–
Proceeds from issuance of shares		83,185	11,661
Capital injection from minority shareholders of subsidiaries	20	1,648	690
Net cash from financing activities		74,374	32,351
Net increase in cash and cash equivalents		10,138	11,926
Cash and cash equivalents, beginning of year		17,997	6,071
Cash and cash equivalents, end of year	21(b)	28,135	17,997

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

GENERAL INFORMATION

Zheda Lande Scitech Limited (the "Company") was formerly named as Hangzhou Land E&I Technology Limited and was established in the People's Republic of China (the "PRC") on 13th November, 1996 with limited liability. The Company was reorganised and then incorporated into a joint stock limited company on 20th September, 2001 with registered share capital of RMB22,745,200, divided into 22,745,200 ordinary shares at par value of RMB1 each. Pursuant to an extraordinary general meeting held on 15th April, 2002, the Company split ordinary shares at par value of RMB1 each into ordinary shares at par value of RMB 0.10 each. Therefore, the Company's ordinary shares increased to 227,452,000 shares ("domestic shares"). The Company subsequently issued 112,125,000 overseas public shares ("H shares") at par value of RMB0.10 each on 24th April, 2002, which were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM") on 3rd May, 2002. The Company together with its subsidiaries are hereinafter collectively referred to as the "Group". The Group is engaged in the development and sale of software and network systems, the provision of technical support services and the sale of computer hardware.

All operations of the Group are within mainland China and the Group had approximately 320 employees as of 31st December, 2002.

The Company's registered office is: 4F No.108 Gu Cui Road, Xihu District, Hangzhou.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The basis and principal accounting policies adopted in the preparation of these financial statements of the Company and of the Group are set out below:

A Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These financial statements have been prepared under the historical cost convention.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

A Basis of preparation (continued)

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

B Group accounting

(1) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note E(i) for the accounting policy on goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

B Group accounting (continued)

(2) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not continue to recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate.

C Foreign currency translation

The Company and its subsidiaries maintain their books and records in RMB.

Foreign currency transactions are recorded in RMB using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing on balance sheet date are recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

D Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial 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.

Depreciation is calculated using the straight-line method to write off the cost, after taken into account the estimated residual value of 3%, of each asset over its expected useful life. The expected useful lives are as follows:

Leasehold improvement	3 years
Office furniture, fixture and other equipment	5 years
Motor vehicles	10 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

E Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

E Intangible assets (continued)

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

The Group's goodwill results from the acquisition of a subsidiary and is amortised over 10 years on a straight-line basis.

At each balance sheet date the Group assesses whether there are any indications of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(ii) *Computer software*

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Purchase costs of identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

The Group's computer software is amortized over three years on a straight-line basis.

F Impairment of long lived assets

Property, plant and equipment and other non-current assets, including investment in an associate and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

G Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

H Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

I Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

J Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and short-term highly liquid investments with original maturities of three months or less.

K Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

L Deferred income taxes

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

M Employee benefits

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency based on 26.6% to 29% of the standard salary set by the provincial government, of which 20.6% to 22% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accruals basis.

In addition to pension benefit, the Group also provides housing fund, unemployment insurance and other welfare benefits to its employees. These staff welfare benefits are accounted for on accrual basis according to certain percentage of the standard salary set by the provincial government.

N Revenue recognition

Revenue comprises the value for the sales of goods and services net of value-added tax (VAT), rebates and discounts, and after eliminating sales within the Group.

- (i) Revenue from system integration is recognised based on the stage of completion. The stage of completion is determined by making reference to testing criteria as certified by the customers. When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.
- (ii) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer.
- (iii) Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

ACCOUNTING POLICIES (continued)

N Revenue recognition (continued)

(iv) Dividends are recognised when the right to receive payment is established.

(v) Subsidy income is recognised upon cash receipt.

O Dividends

Dividends are recorded in the Group's financial statements as a liability in the period in which they are approved by the Group's shareholders.

P Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

FINANCIAL RISK MANAGEMENT

(1) Financial risk factors and financial risk management

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

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

(i) Credit risks

The Group has significant accounts receivable from debtors in the telecommunication industry. The collectibility of those accounts receivable may be adversely affected by economic changes in the telecommunication industry.

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

FINANCIAL RISK MANAGEMENT (continued)

(1) Financial risk factors and financial risk management (continued)

(ii) *Liquidity risks*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(iii) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant long-term interest-bearing assets.

(iv) *Foreign exchange risk*

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

(2) Fair value estimation

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

1 SALES AND COST OF SALES

	2002	2001
Sales, net		
Provision of telecommunication solutions		
– System integration	46,284	55,018
– Sales of self-developed software (i)	25,258	–
	71,542	55,018
Trading of hardware and software	25,271	9,181
Less: surtaxes (ii)	(1,355)	(309)
	95,458	63,890
Cost of sales		
Provision of telecommunication solutions		
– System integration	34,571	28,154
– Cost of self-developed software	290	–
	34,861	28,154
Trading of hardware and software	24,626	8,120
	59,487	36,274

- (i) The Company launched a new business module in 2002 to sell self-developed software separately. The Company only sells right to the use of the software and retains the patent. For the year ended 31st December, 2002, the revenue from sales of self-developed software amounted to approximately RMB25,258,000 and the gross profit derived therefrom amounted to approximately RMB24,968,000. As of 31st December, 2002, balances of trade receivables and due from related parties arising from sales of self-developed software amounted to approximately RMB14,790,000 and RMB11,453,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

1 SALES AND COST OF SALES (continued)

(ii) The Group is subject to the following surtaxes, which are recorded as deductions from gross sales:

- Business tax, levied at five per cent over the revenue arising from sales of software with transfer of patent.
- City Development Tax, seven per cent. of net VAT payable.
- Education Supplementary Tax, levied at four per cent. of net VAT payable.

2 FINANCE COSTS, NET

	2002	2001
Interest expense for bank loans	(1,311)	(268)
Interest income	534	74
Foreign exchange gain, net	(33)	–
Others	(294)	(4)
	(1,104)	(198)

3 SUBSIDY INCOME

	2002	2001
VAT refund (a)	1,606	–
Local government grants (b)	449	–
	2,055	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

3 SUBSIDY INCOME (continued)

- (a) Pursuant to Guo Fa [2000] No. 18 issued by the State Council, the Company is subject to VAT at a rate of 17% on sales of self-developed software, and is granted VAT refunds of the amount of actual tax burden exceeding beyond 3% on sales of self-developed software. VAT refund is recorded upon receipt.
- (b) This amount represents the subsidy granted by local government to encourage the Company's technical innovation and improvements.

4 PROFIT BEFORE TAX AND MINORITY INTERESTS

Profit before tax and minority interests in the consolidated income statements was determined after charging the following items:

	2002	2001
Staff costs (excluding directors' and supervisors' emoluments)		
– salaries, bonus and wages	7,013	1,433
– provision for staff welfare benefits	876	137
– contribution to pension scheme	863	363
	8,752	1,933

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

4 PROFIT BEFORE TAX AND MINORITY INTERESTS (continued)

	2002	2001
Depreciation of property, plant and equipment	1,382	640
Amortisation of intangible assets	2,080	336
Loss on disposals of property, plant and equipment	95	–
Research and development costs	1,000	1,043
Operating lease rentals for office building	1,175	483
Cost of inventories	59,487	36,274
Trade receivables – impairment charge for bad and doubtful debts	2,379	521
Loss from an associate		
– Share of loss	–	69
– Impairment loss	–	238
Auditor's remuneration	525	10

5 INCOME TAX EXPENSES

(1) Income tax expense in the consolidated income statement comprised:

	2002	2001
Income tax expense		
– Current	2,879	2,792
– Deferred tax	(32)	195
	2,847	2,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

5 INCOME TAX EXPENSES (continued)

(2) The reconciliation of the applicable tax rate to the effective tax rate is as follows:

	2002		2001	
Accounting profit before tax and minority interests	16,071	100%	17,488	100%
Tax at the effective tax rate of 15% (2001: 15%)	2,411	15%	2,623	15%
Effect of different tax rates of subsidiaries	(174)	(1.1%)	–	–
Deferred tax assets of deductible temporary differences not recognised	448	2.8%	8	0.1%
Tax effect of expenses that are not deductible in determining taxable profit	162	1.0%	356	2%
Income tax expense	2,847	17.7%	2,987	17.1%

The Company has been classified as an Advanced Technology Enterprise by the Scientific Technology Committee of Zhejiang Province. As an enterprise incorporated in the National Advanced Technology Industry Development Area in Hangzhou, the Company is subject to Enterprise Income Tax (“EIT”) at a rate of 15% in 2002 and 2001.

The EIT rates of subsidiaries of the Company are as follows:

Chendu Lande E&I Technology Co Ltd. (“Chendu Lande”), which is registered in the National Advanced Technology Industry Development Area in Chengdu, has been classified as an Advanced Technology Enterprise. According to Caishuizi [1994] No. 001 and as approved by the local tax bureau according to Chen Gao Local [2001] No. 135, Chendu Lande is exempt from EIT for the period from June 2001 to May 2003. Thus, the effective rate for the year of 2002 is zero.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

5 INCOME TAX EXPENSES (continued)

(2) The reconciliation of the applicable tax rate to the effective tax rate is as follows (continued):

In 2002, Shanghai Langang Communication Technology Company Limited (“Shanghai Langang”) is subject to 4% EIT over service provision income and 0.5% EIT over hardware sales income.

As approved by the local tax bureau, Guangzhou Landi Electronics Information Technology Company Ltd. (“Guangzhou Landi”) is subject to EIT at deemed profit rate (i.e. the taxable income is calculated at 5% of revenue in 2002). In addition, according to Caishuizi [1994] No. 9, the applicable EIT rate is 27% in 2002 as the annual taxable profit of Guangzhou Landi is below RMB100,000.

Zhejiang lande Sichuang Information Technology Company Ltd. (“Lande Sichuang”) was classified as an Advanced Technology Enterprise in the year of 2002. According to Guoshuifa [1996] No. 23 and Caishuizi [1994] No. 9 as well as approved by the local tax bureau, the applicable tax rate is 18% as its taxable profit in 2002 is below RMB30,000.

Hangzhou Trust Communication Service Co., Ltd. (“Hangzhou Trust”) and Hangzhou Lande Xinyi Information Technology Company Ltd. (“Lande Xinyi”) are subject to EIT at rate of 33%.

(3) As of 31st December, 2002, there was no material unprovided deferred tax.

6 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2002	2001
Net profit	11,520	14,839
Weighted average number of ordinary shares in issue (thousands)	304,864	227,452
Basic earnings per share (RMB)	0.038	0.065

Pursuant to an extraordinary general meeting held on 15th April, 2002, the Company split ordinary shares at par value of RMB1 each into ordinary shares at par value of RMB0.10 each. The basic earnings per share for year 2001 is computed based on 227,452,000 shares as if the split of shares had taken place at the beginning of year 2001 and as if those shares had been issued and outstanding throughout the year 2001 and 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

6 EARNINGS PER SHARE (continued)

Diluted earnings per share are not presented, because no potential dilutive shares existed during the current or prior year.

7 NET PROFIT FOR THE YEAR

The consolidated net profit for the year ended 31st December, 2002 included a net profit of approximately RMB8,801,000 (2001: net profit of approximately RMB15,564,000) dealt with in the financial statements of the Company before accounting for the results of subsidiaries and an associate using the equity method of accounting.

8 DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES' EMOLUMENTS

(i) Details of the emoluments of the directors and supervisors of the Company were as follows:

	2002	2001
Fees	-	-
Salaries, allowances and benefits in kind	590	340
Bonuses	-	-
Retirement benefits	89	7
Others	-	-
	679	347

During the year ended 31st December, 2002, the five executive directors received emoluments of approximately RMB280,000, RMB177,000, RMB49,000, RMB20,000 and RMB20,000 respectively and each of the three independent non-executive directors received emoluments of approximately RMB20,000, RMB20,000, and RMB10,000 respectively. Five supervisors received emoluments of approximately RMB49,000, RMB22,000, RMB6,000, RMB3,000 and RMB3,000 respectively.

No directors or supervisors waived any emoluments for the year ended 31st December, 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

8 DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

(i) Details of the emoluments of the directors and supervisors of the Company were as follows (continued):

The number of directors and supervisors whose emoluments fell within the following band is as follows:

	2002	2001
Nil – RMB1,000,000	13	10

(ii) Details of emoluments of the five highest paid individuals (including directors, supervisors and employees) were as follows:

	2002	2001
Fees	–	–
Salaries, allowance and benefits in kind	1,100	760
Bonus	–	–
Retirement benefits	99	17
Others	–	–
	1,199	777

The five individuals whose emoluments were the highest in the Group (including directors, supervisors and employees) were as follows:

	2002	2001
Directors	3	2
Employees	2	3
Nil-RMB 1,000,000	5	5

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals (including directors, supervisors and employees) as an inducement to joining the Group, or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

9 PROPERTY, PLANT AND EQUIPMENT

Group

Movements in property, plant and equipment were as follows:

	2002			Total
	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment	
Cost				
As of 1st January, 2002	1,190	1,645	1,118	3,953
Reclassification	–	(323)	323	–
Addition from acquisition of a subsidiary (<i>Note 21(c)</i>)	–	190	287	477
Additions	1,208	880	2,661	4,749
Disposals	–	(244)	(20)	(264)
As of 31st December, 2002	2,398	2,148	4,369	8,915
Accumulated depreciation				
As of 1st January, 2002	554	237	404	1,195
Addition from acquisition of a subsidiary (<i>Note 21(c)</i>)	–	1	48	49
Charge for the year	708	162	512	1,382
Disposals	–	(90)	(7)	(97)
As of 31st December, 2002	1,262	310	957	2,529
Net book value				
As of 1st January, 2002	636	1,408	714	2,758
As of 31st December, 2002	1,136	1,838	3,412	6,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Group

		2001			
	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment		Total
Cost					
As of 1st January, 2001	826	988	799		2,613
Additions	364	657	319		1,340
As of 31st December, 2001	1,190	1,645	1,118		3,953
Accumulated depreciation					
As of 1st January, 2001	235	91	229		555
Charge for the year	319	146	175		640
As of 31st December, 2001	554	237	404		1,195
Net book value					
As of 1st January, 2001	591	897	570		2,058
As of 31st December, 2001	636	1,408	714		2,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	2002			
	Leasehold	Motor	Office furniture, fixtures and other	Total
	improvements	vehicles	equipment	
Cost				
As of 1st January, 2002	1,181	1,577	1,096	3,854
Reclassification	–	(255)	255	–
Additions	1,208	880	1,768	3,856
Disposals	–	(244)	–	(244)
As of 31st December, 2002	2,389	1,958	3,119	7,466
Accumulated depreciation				
As of 1st January, 2002	551	230	404	1,185
Charge for the year	703	151	326	1,180
Disposals	–	(91)	–	(91)
As of 31st December, 2002	1,254	290	730	2,274
Net book value				
As of 1st January, 2002	630	1,347	692	2,669
As of 31st December, 2002	1,135	1,668	2,389	5,192

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

		2001			
	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment		Total
Cost					
As of 1st January, 2001	826	988	777		2,591
Additions	355	589	319		1,263
As of 31st December, 2001	1,181	1,577	1,096		3,854
Accumulated depreciation					
As of 1st January, 2001	235	91	229		555
Charge for the year	316	139	175		630
As of 31st December, 2001	551	230	404		1,185
Net book value					
As of 1st January, 2001	591	897	548		2,036
As of 31st December, 2001	630	1,347	692		2,669

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

10 INTANGIBLE ASSETS

Group and Company

	2002		
	Goodwill	Computer software	Total
Cost			
Beginning of year	–	2,000	2,000
Computer software purchased	–	5,774	5,774
Addition from acquisition of a subsidiary (Note 21(c))	546	–	546
End of year	546	7,774	8,320
Accumulated amortisation			
Beginning of year	–	336	336
Charge for the year	27	2,053	2,080
End of year	27	2,389	2,416
Net book value			
End of year	519	5,385	5,904
Beginning of year	–	1,664	1,664

	2001
	Computer software
Cost	
Beginning of year	130
Addition	1,870
End of year	2,000
Accumulated amortisation	
Beginning of year	–
Charge for the year	336
End of year	336
Net book value	
End of year	1,664
Beginning of year	130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

10 INTANGIBLE ASSETS (continued)

Group and Company

The goodwill arose from the excess of acquisition cost over the Company's equity interest in the fair value of net identifiable assets of its subsidiary, Lande Xinyi, on the date of acquisition.

The computer software is amortized over the expected beneficiary period of three years since the date of purchase.

11 INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

Company

	2002	2001
Unlisted investments, at cost	14,794	1,085
Share of post acquisition gains/(losses)	2,273	(446)
Amounts due from subsidiaries	12,775	–
At end of year	29,842	639

The amounts due from subsidiaries arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the Company's carrying value of the subsidiaries as of the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

11 INVESTMENTS IN CONSOLIDATED SUBSIDIARIES (continued)

Company

Details of the Company's subsidiaries, all of which are limited liability companies operated in Mainland China, as of 31st December, 2002 were as follows:

Name of subsidiaries	Date and place of incorporation	Investment cost	The Company's equity interest		Registered and paid-in capital	Principal activity
			Direct	Indirect		
Chengdu Lande	23rd November, 2000 PRC	RMB275,000	55%	–	RMB500,000	Development of electronic information technology, sale of software and network system.
Hangzhou Trust(i)	10th May, 2001 PRC	RMB550,000	55%	–	RMB1,000,000	Development of technology and computer consultancy service and development of information system.
Shanghai Langang	10th December, 2001 PRC	RMB510,000	51%	–	RMB1,000,000	Development of computer, communication and network products.
Lande Xinyi (ii)	1st February, 2000 PRC	RMB2,000,000	85%	–	RMB2,000,000	Development of technology and provision of technical service. Transfer of computer software, hardware, and network system.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

11 INVESTMENTS IN CONSOLIDATED SUBSIDIARIES (continued)

Company

Name of subsidiaries	Date and place of incorporation	Investment cost	The Company's equity interest		Registered and paid-in capital	Principal activity
			Direct	Indirect		
Guangzhou Landi	2nd August, 2002 PRC	RMB1,005,000	67%	–	RMB1,500,000	Development of computer software, network system and products; provision of technical service; sales of computer and its accessories, communication products (not including those exclusively controlled and sold by the government).
Lande Sichuang	30th September, 2002 PRC	RMB9,500,000	95%	4.25%	RMB10,000,000	Development of computer software, network technology. Provision of technical service and sales of computer software and hardware.
Hefei Lande Tong Ling Technology Limited ("Lande Tongling")	20th December, 2002 PRC	RMB1,500,000	75%	–	RMB2,000,000	Development of computer software, network system and products. Provision of technical service; sales and maintenance of computer and its accessories, communication products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

11 INVESTMENTS IN CONSOLIDATED SUBSIDIARIES (continued)

Company

- (i) The registered capital of Hangzhou Trust was increased from RMB500,000 to RMB1,000,000 on 25th January, 2002. The Company increased its investment from RMB300,000 to RMB550,000 and its equity interest decreased from 60% to 55%.
- (ii) The Company acquired Lande Xinyi on 13th August, 2002.

12 INVESTMENT IN AN ASSOCIATE

Group and Company

	2002	2001
Unlisted investment, at cost	360	360
Share of post-acquisition losses	(122)	(122)
Provision for impairment	(238)	(238)
	-	-

Details of the associate as of 31st December, 2002 were as follows:

Name	Date and place of incorporation	Investment cost	Percentage of equity interest	Registered/ Paid-in capital	Principal activity
Hangzhou Tour Electronic Commerce Co. Ltd. ("Hangzhou Tour")	11th July, 2000 PRC	RMB360,000	24%	RMB1,500,000	Electronic commercial services related to tourism

The unrecognised share of loss of the associates for the year and the cumulative unrecognised share of loss up to 31 December 2002 amounted to approximately RMB2,000 (year 2001 and 31 December 2001: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

13 INVENTORIES

Group

	2002	2001
Contract work in progress (at cost)	3,240	5,677
Software purchased from third party	6,714	–
	9,954	5,677

Company

	2002	2001
Contract work in progress (at cost)	2,064	5,093
Software purchased from third party	4,088	–
	6,152	5,093

14 PREPAYMENTS AND OTHER RECEIVABLES

Group

	2002	2001
Prepayments to suppliers	18,637	6,977
Advances to third parties (a)	11,758	–
Advances to employees	926	480
Others	1,613	1,716
	32,934	9,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

14 PREPAYMENTS AND OTHER RECEIVABLES (continued)

Company

	2002	2001
Prepayments to suppliers	4,549	6,786
Advances to third parties (a)	8,758	–
Advances to employees	926	480
Others	594	2,085
	14,827	9,351

(a) The advances to third parties, who have close business relationships with the Group, are unsecured, interest-free and without fixed repayment terms.

15 TRADE RECEIVABLES

Group

	2002	2001
Accounts receivable	65,020	33,480
Less: Provision for bad and doubtful debts	(3,817)	(1,438)
	61,203	32,042

Company

	2002	2001
Accounts receivable	58,289	33,318
Less: Provision for bad and doubtful debts	(3,817)	(1,438)
	54,472	31,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

15 TRADE RECEIVABLES (continued)

There were no specific credit terms granted to the customers. Ageing analysis of accounts receivable was as follows:

Group

	2002	2001
Ageing		
– not exceeding one year	55,817	30,812
– more than one year but not exceeding two years	7,191	1,103
– more than two years but not exceeding three years	703	1,357
– more than three years	1,309	208
	65,020	33,480

Company

	2002	2001
Ageing		
– not exceeding one year	49,086	30,650
– more than one year but not exceeding two years	7,191	1,103
– more than two years but not exceeding three years	703	1,357
– more than three years	1,309	208
	58,289	33,318

Provision is made for doubtful debts based on reviews of the status of individual accounts receivable outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

16 NOTES PAYABLE AND TRADE PAYABLES

The Group's and the Company's notes payable and trade payables are all aged less than one year.

17 SHORT-TERM BORROWINGS

Group and Company

	2002		2001	
	Interest rate per annum	Principal	Interest rate per annum	Principal
Bank loans				
– Guaranteed*	–	–	6.435%	20,000
– Unsecured	4.779%	10,000	–	–
		10,000		20,000

* As of 31st December, 2001, bank loans were guaranteed by Zhejiang University Qware Science Co. Ltd. ("Qware Science") and Zheda Science & Technology Co. Ltd. ("Zheda Science") respectively. Zheda Science is the major shareholder of Qware Science. Zheda Science and the Company have a common shareholder, Zhejiang University Innovation Information Holdings Company Limited ("Zhejiang Innovation"). On 22nd March, 2002, Zheda Science was released as a guarantor of the loan, and was replaced as a guarantor by Zhejiang Innovation.

18 PAID-IN CAPITAL/SHARE CAPITAL

Group and Company

The Company issued 112,125,000 H shares with a par value of RMB0.10 each on 24th April, 2002 at an issue price of RMB0.88 (HK\$0.83) per share. The H shares were listed on the GEM on 3rd May, 2002. H shares can only be owned and traded by overseas investors. Dividends on H shares are payable in HK dollar.

Andersen • Hua Qiang Certified Public Accountant issued a Capital Verification report dated 11th June, 2002 in respect of the above issuance of ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

18 PAID-IN CAPITAL/SHARE CAPITAL (continued)

As of 31st December, 2002 and 2001, the details of ordinary shares were as follows:

	2002		2001	
	Number of shares (‘000)	Amount	Number of shares (‘000)	Amount
<i>Registered, issued and fully paid:</i>				
Domestic shares of RMB0.10 each				
held by promoters	227,452	22,745	22,745	22,745
H shares with a par value of				
RMB0.10 each	112,125	11,213	–	–
	339,577	33,958	22,745	22,745

Pursuant to an extraordinary general meeting held on 15th April, 2002, the Company split its domestic shares at par value of RMB1 each into domestic shares at par value of RMB0.10 each. Therefore, the Company’s domestic share capital increased to 227,452,000 shares.

19 RESERVES

(a) Share premium

As of 31st December, 2002, share premium represents proceeds from the issuance of H shares in excess of their par value, net of underwriting commissions and professional fees.

(b) Statutory Surplus Reserve (“SSR”)

In accordance with the Company Law and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries shall appropriate 10% of their annual statutory net profit (after offsetting any prior years’ losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity’s paid-in capital/share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years’ losses or to increase capital after properly approved. However, except for offset prior years’ losses, such statutory surplus reserve must be maintained at a minimum of 25% of paid-in capital/share capital after such usage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

19 RESERVES (continued)

(b) Statutory Surplus Reserve ("SSR") (continued)

For the year ended 31st December, 2002, the directors have recommended that 10% (2001: 10%) of net profit of each entity based on the management accounts prepared in accordance with PRC accounting regulations be appropriated to this reserve.

(c) Statutory Public Welfare Reserve ("SPWR")

In accordance with the Company Law and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries are also required to appropriate 5% to 10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund to be utilized for employees' common welfare.

For the year ended 31st December, 2002, the directors have recommended that 5% (2001: 10%) of net profit of each entity based on the management accounts prepared in accordance with PRC accounting regulations be appropriated to this reserve.

(d) Tax refund reserve

Tax refund reserve represents accumulated EIT refunds received by the Company, which are transferred from retained profits because of the restrictions on usage. The reserve fund can only be used for the expansion of the operation of the Company.

(e) Retained earnings

Retained earnings are to be carried forward for future distribution.

The distribution of dividends is made in accordance with the Company's articles of association and the recommendation of the Board of Directors and is subject to approval by shareholders in general meetings. Pursuant to the Notice [1995] 31 issued by Ministry of Finance on 24th August, 1995, the amount of profit available for distribution to the shareholders will be determined based on the lower of unappropriated profit in the financial statements determined in accordance with (i) PRC accounting standards and regulations, and (ii) IFRS.

As of 31 December 2002 the Group's profit available for distribution to shareholders after transfers to reserves amounted to approximately RMB19.8 million (2001: approximately RMB10.3 million). According to the board resolution dated 25th March, 2003, no dividend is declared in respect of the year 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

19 RESERVES (continued)

Upon incorporation of the Company on 20th September, 2001, all the reserves as of 30th June, 2001, including capital surplus amounting to approximately RMB15,455,000, statutory surplus reserves amounting to approximately RMB346,000, statutory public welfare fund amount to approximately RMB227,000, tax refund reserve amounting to approximately RMB1,614,000 and retained profits amounting to approximately RMB558,000 respectively, have been capitalised as share capital.

20 MINORITY INTERESTS

	2002	2001
Opening balance	550	198
Acquisition (Note 21(c))	256	–
Capital contribution	1,648	690
Share of net profit/(loss) of subsidiaries	1,704	(338)
Ending balance	4,158	550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

21 SUPPLEMENTARY INFORMATION TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation from net profit to cash used in operations:

	2002	2001
Net profit	11,520	14,839
Adjustments for:		
Minority interests	1,704	(338)
Income tax expenses	2,847	2,987
Depreciation of property, plant and equipment	1,382	640
Amortisation of intangible assets	2,080	336
Impairment charge for bad and doubtful debts	2,379	521
Impairment charge of investment in an associate	–	238
Loss on disposals of property, plant and equipment	95	–
Interest income	(534)	(74)
Interest expense	1,311	268
Share of results of associates before tax	–	69
<hr/>		
Operating profit before working capital changes	22,784	19,486
Changes in working capital:		
Restricted deposit and time deposit (Note 21(b))	(34,362)	–
Inventories	(4,254)	5,283
Trade receivables	(31,540)	(30,310)
Prepayment and other receivables	(23,062)	(5,844)
Due from related parties	(13,247)	–
Notes payable and trade payables	22,381	(1,067)
Advance from customers	8,890	(4,876)
Other payables and accruals	1,773	(181)
Current tax liabilities	2,430	1,573
<hr/>		
Cash used in operations	(48,207)	(15,936)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

21 SUPPLEMENTARY INFORMATION TO CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Analysis of the balances of cash and cash equivalents

	2002	2001
Cash on hand and bank deposits	62,497	17,997
Less: Restricted bank deposits and time deposits with maturity of more than 3 months (Note 21(a))	(34,362)	–
Cash and cash equivalents	28,135	17,997

Restricted bank deposit of approximately RMB5.5 million was the guarantee deposit for notes payable.

(c) Acquisition of a subsidiary

On 13th August, 2002 the Group acquired 85% share capital of Lande Xinyi. The assets and liabilities arising from the acquisition were as follows:

Cash and cash equivalents	1,299
Property, plant and equipment (Note 9)	428
Inventories	7
Prepayments and other receivables	370
Others payables and accruals	(394)
Fair value of net assets acquired	1,710
Less: minority interest (Note 20)	(256)
Fair value of interest acquired	1,454
Add: Goodwill (Note 10)	546
Total purchase consideration	2,000
Less: cash and cash equivalents acquired	(1,299)
Net cash outflow	701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

22 RELATED PARTY TRANSACTIONS

Group

(a) Name and relationship of related parties

Name of related party	Nature of relationship
Hefei Zhengxun Wireless Communication Service Centre ("Hefei Zhengxun")	Minority shareholder of a subsidiary of the Company
Shanghai Harbour Tele-communication Technology Company Ltd. ("Shanghai Harbour")	Minority shareholder of a subsidiary of the Company

(b) Details of transactions between the Group and related companies were as follows:

	2002	2001
Sales of self-developed software to Hefei Zhengxun (Note 1 (i))	12,512	–
Advance to Shanghai Harbour	1,000	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)
(All amounts in RMB thousands unless otherwise stated)

22 RELATED PARTY TRANSACTIONS (continued)

(c) Due from related parties

Group

	2002	2001
Hefei Zhengxun	11,453	–
Shanghai Harbour	1,366	–
Others	428	–
	13,247	–

Company

	2002	2001
Hefei Zhengxun	11,453	–
Others	308	–
	11,761	–

The amounts due from related parties arose from the above transactions, and are unsecured, non-interest bearing and without fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(for the year ended 31st December, 2002)

(All amounts in RMB thousands unless otherwise stated)

23 OPERATING LEASE COMMITMENTS

The Group has various operating lease agreements for office premises.

As of 31st December, 2002 and 2001, total future minimum lease payments under non-cancelable operating leases for certain office buildings of the Group are as follows:

	2002	2001
Within one year	776	502
Two to five years	1,342	432
	2,118	934

24 SEGMENT REPORTING

The Group is one business segment and one geographical location. Thus, no segment information is prepared.

25 CONTINGENT LIABILITIES

As of 31st December, 2002, the Group had discounted notes of RMB25 million, which expired in February 2003.

As of 31st December, 2001, the Group had no significant contingent liabilities.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st December,			
	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Sales, net	95,458	63,890	23,151	4,621
Cost of sales	(59,487)	(36,274)	(17,047)	(2,469)
Gross profit	35,971	27,616	6,104	2,152
Distribution costs	(5,858)	(2,842)	(1,671)	(1,207)
Administrative expenses	(15,515)	(6,766)	(2,274)	(2,509)
Other operating expenses	(96)	(15)	(10)	(3)
Profit (loss) from operations	14,502	17,993	2,149	(1,567)
Finance (costs) income, net	(1,104)	(198)	9	7
Share of results of associates before tax	–	(307)	(53)	–
Subsidy income	2,055	–	–	–
Other income	618	–	–	–
Profit (loss) before tax and minority interests	16,071	17,488	2,105	(1,560)
Income tax expenses	(2,847)	(2,987)	(326)	189
Profit (loss) before minority interests	13,224	14,501	1,779	(1,371)
Minority interests	(1,704)	338	24	–
Net profit (loss)	11,520	14,839	1,803	(1,371)
Earnings (loss) per share				
– Basis (RMB)	0.038	0.065	0.008	(0.006)

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31st December,			
	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Total assets	193,839	69,311	25,270	15,979
Total liabilities	(59,292)	(33,093)	(21,442)	(14,155)
(Minority interests)	(4,158)	(550)	(201)	–
Shareholders' funds	130,389	35,668	3,627	1,824

Note: The results of the Group for each of the three years ended 31st December, 2001 and the assets and liabilities of the Group as at 31st December, 1999, 2000 and 2001 were extracted from the Company's prospectus dated 24th April, 2002. The results of the Group for the year ended 31st December, 2002 and the assets and liabilities of the Group as at that date were extracted from the audited consolidated income statement and consolidated balance sheet as set out on pages 34 and 35 to 36 of the Annual Report respectively.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Zheda Lande Scitech Limited (the "Company") will be held at 1/F, Block 3, 108 Gu Cui Road, Hangzhou City, the People's Republic of China (the "PRC") on Friday, 16th May, 2003 at 2:00 p.m. for the following purposes:

1. To consider and approve the Report of the Directors for the year 2002;
2. To consider and approve the Report of the Supervisory Committee for the year 2002;
3. To consider and approve the Audited Consolidated Financial Statements of the Company and its subsidiaries for the year 2002;
4. To consider and approve the Profit after Taxation Appropriation Plan and Final Dividend Distribution Plan for the year 2002;
5. To consider and approve the Financial Report for the year 2002 and the Financial Budget Report for the year 2003;
6. To consider and approve the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co. and PricewaterhouseCoopers as the statutory auditors and international auditors of the Company for the year 2003 respectively and to authorize the board of directors to fix their remunerations;
7. To pass the following matters as special resolutions:
 - (1) To consider and resolve that, subject to the approval of China Securities Regulatory Commission and/or other relevant statutory authorities in the PRC and/or the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the proposed issue of new H Shares and/or the listing and dealing of Domestic Shares, the board of directors be authorised to:
 - (a) to place and/or issue H Shares and/or Domestic Shares within a period until the conclusion of the next annual meeting or this resolution is revoked or varied in general meeting, whichever is the earliest, from the date of this resolution, provided that the total number of H Shares and/or Domestic Shares to be placed and/or issued shall not exceed 20% (the "20% Limit") of the number of H Shares and/or Domestic Shares of the Company in issue respectively;
 - (b) subject to the 20% Limit, to decide the number of H Shares and/or Domestic Shares to be placed and/or issued and to deal with any matter arising from or related to the placing or issue of the new Shares mentioned above;

NOTICE OF ANNUAL GENERAL MEETING

- (c) to amend, in accordance with the increase in the registered capital of the Company, the relevant articles contained in the Articles of Association in relation to the registered capital of the Company and any other articles that require corresponding amendments; and
 - (d) if any chronological variation of the wordings or numbering of the articles contained in the Articles of Association of the Company is necessary upon application to the companies examination and approval authority authorised by the State Council and China Securities Regulatory Commission for examination and approval, to make corresponding amendments to the Articles of Association as required by such authority and China Securities Regulatory Commission.”
- (2) To consider and resolve that, in order to comply with the relevant requirements for a sino-foreign investment company, the business scope of the Company be changed from “technology development, services, computer software, network engineering, network products; wholesale and retailing of computer and accessories” to “technology development and related services, computer software development, network engineering, manufacture of network products; sale of self-made products”.
- (3) To consider and resolve that, in order to facilitate the development of the Company, the name of the Company be changed from “浙江浙大網新蘭德科技股份有限公司 (Zheda Lande Scitech Limited)” to 蘭德科技股份有限公司(Lande Scitech Limited)”.
- (4) To consider and resolve that, in accordance with the changes mentioned in paragraphs (2) and (3) above, the Articles of Association of the Company be amended as follows:
- (a) Paragraph 2 of Article 14:

The original wordings:

“The business scope of the Company includes technology development, services, computer software, network engineering, network products; wholesale and retailing of computer and accessories.”

be deleted and replaced with:

“The business scope of the Company includes technology development and related services; computer software development; network engineering, manufacture of network products; sale of self-made products.”

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(b) Paragraph 1 of Article 1:

The original wordings:

“Zheda Lande Scitech Limited (the “Company”) was established as a joint stock limited company under The Company Law of the People’s Republic of China (the “Company Law”) and other relevant laws and administrative rules of the State.”

be deleted and replaced with:

“Lande Scitech Limited (the “Company”) was established as a joint stock limited company under The Company Law of the People’s Republic of China (the “Company Law”) and other relevant laws and administrative rules of the State.”

(c) Article 2:

The original wordings:

“The registered Chinese name of the Company is 浙江浙大網新蘭德科技股份有限公司. The registered English name of the Company is Zheda Lande Scitech Limited.”

be deleted and replaced with:

“The registered Chinese name of the Company is 蘭德科技股份有限公司. The registered English name is Lande Scitech Limited.”

(5) To consider and resolve that, the board of directors be authorised to deal with the procedures and sign relevant documents required to effect the changes as mentioned in paragraphs (2) and (3) above and make related amendments to the Articles of Association of the Company.

By order of the Board

Chen Ping

Chairman

28th March, 2003, Hangzhou, the PRC

*Registered office
in the PRC:*

4th Floor
108 Gu Cui Road
Hangzhou City
PRC

*Principal place of business:
in Hong Kong:*

Unit 1803–1807
Sun Hung Kai Center
30 Harbour Road
Wanchai
Hong Kong

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Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of H shares proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited with the Company's H Share Registrar, Hong Kong Registrars Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 24 hours before the time for holding the above meeting or appointed time of voting.
3. Shareholders or their proxies shall present proofs of identities upon attending the above meeting.
4. The Registrar of Members will be closed from 17th April, 2003 to 16th May, 2003 (both days inclusive). All transfers accompanied by relevant share certificates must be lodged with the Company's H Share Registrar not later than 4:00 p.m. on 16th April, 2003.
5. Shareholders entitled to attend the above meeting are requested to deliver the reply slip for attendance to the Company to be received by the Company 20 days before the date of meeting.