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浙大蘭德

ZHEDA LANDE SCITECH LIMITED*

浙江浙大網新蘭德科技股份有限公司

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

03

**ANNUAL
REPORT**

** for identification purpose only*

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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Corporate Information

Directors

Executive directors

Mr. Chen Ping
Mr. Zhao Jian
Mr. Xue Shi Cheng
Mr. Chen Chun

Non-executive director

Mr. Hu Yang Jun

Independent non-executive directors

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

Supervisors

Supervisors

Mr. Wang Wei Li
Mr. Fu Liang Yuan

Independent supervisors

Mr. Gu Yu Lin
Mr. Feng Pei Xian

Authorised representatives

Mr. Chen Ping
Miss Chan Ching Yi, Yvonne ACCA

Compliance officer

Mr. Xue Shi Cheng

Qualified accountant

Miss Chan Ching Yi, Yvonne ACCA

Company secretary

Miss 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

Hong Kong share registrar and transfer office

Hong Kong Registrars Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong



Corporate Information

Auditors

RSM Nelson Wheeler
Certified Public Accountants
7th floor
Allied Kajima Building
138 Gloucester Road
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 Queen's Road Central
Hong Kong

Principal banker

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

Stock code

8106



Chairman's Statement

I would like to present hereby on behalf of the board of directors (the "Board") of Zheda Lande Scitech Limited (the "Company") the 2003 Annual Report of the Company and its subsidiaries (together the "Group").

Financial Highlights

We are pleased to announce that the Group has achieved a satisfactory result in the past financial year. For the year ended 31 December 2003, the Group realized a turnover of approximately RMB164,551,000 and recorded a net profit of approximately RMB12,240,000. Turnover increased by approximately 72.38% or approximately RMB69,093,000. The Board recommends the payment of a final dividend of RMB0.01 per share, aggregating to approximately RMB3,396,000, for the financial year ended 31 December 2003.

Operation Review

During the report period, the Enterprise Management Support System had made its first entry into China Unicom. The Group had obtained contracts for the four testing provinces, including the Zhejiang Province, across the country, all of which had passed the final check during the report period. The Enterprise Management Support System had also made its first entry into China Telecom. The Group had obtained management support system contracts from the North China Division of China Telecom for nine provinces, all of which had been put to trial run during the Report Period. The Group also obtained new contracts from China Mobile for a number of provinces in respect of the second-generation management support system.

In the area of telecom support system, the Group had completed the setting up of integrated customer service systems in four provinces for the North China Division of China Telecom and telecom operation analysis systems for Qinghai and Gan Su. The Group had established high level and stable operation relationship with IBM and had jointly completed the implementation of EAI products for the nine provinces of North China Division of China Telecom. EAI is the basic platform for the system consolidation of telecom operators and has tremendous market potential. The success of the Group in the North China Division of China Telecom will make the Group three to six months ahead of its competitors in the area of EAI products.

During the report period, the Group endeavored to expand its system integration business within the national telecom industry and seek for contracts on large-scale project within the local province. The Group also made every effort to explore the market relating to the education industry of the Zhejiang Province and the government industry. The Group had successfully obtained contracts for a number of projects in connection to the education system, ordinary level education and high level education within the local province. The Group has achieved decent results in this aspect.

In order to tag on market demands, the terminal product division and the telecom product division of the Group tried hard to promote the mobile fixed line phone business and the sales and service of digital communication products of Hua Wei Company. In this respect, the Group had launched three products, namely GSM wireless business phone, GSM wireless public phone and CDMA wireless business phone, which products had generated sales income of approximately RMB40,000,000 for the period from June to December 2003.



Chairman's Statement

It is also worth to mention that there was significant growth in the value-added business of two of the Group's subsidiaries, generating operating income in excess of approximately RMB10,000,000. The earning power and prospects of these subsidiaries are cheerful.

Future prospects

Footing on the groundwork of the year 2003, the Group will consolidate and advance its product lines and enhance the competitiveness of its products in the year 2004. The Group will continue to strive on the research, development and promotion of the core products, strengthen the customer relationship with China Mobile, China Unicom and China Telecom, train up sales and marketing personnel and establish proficient and effective customer service system. Greater development of the Group is expected.

Appreciation

Last but not least, on behalf of the Board and management, I would like to express my gratitude to the investors and customers for their incessant support. My thanks also go to all staff of the Group for their hard working for the past year, especially during the spread of SARS in the first half of the year. They worked dedicatedly to overcome many difficulties, enabling the Group to achieve proudly results. In the future, the Group will continue to provide premium products and services to the customers and maximize the profits for the shareholders.

Chen Ping

Chairman

29 March 2004
Hangzhou, the PRC



Management Discussion and Analysis

Operation Review

1. Review of operating results for the year

For the year ended 31 December 2003, the audited consolidated turnover of the Group was approximately RMB164,551,000, representing a growth of approximately RMB69,093,000, or approximately 72.38% as compared with that of 2002.

The audited profit attributable to shareholders of the Group for the year ended 31 December 2003 was approximately RMB12,240,000, representing a growth of approximately RMB720,000, or approximately 6.25% as compared with that of 2002.

The operating results of the Group during the report period were mainly affected by three factors: (1) the influence of SARS in the first half of the year; (2) prudent business strategy and (3) increase in new business lines. Due to the influence of SARS, the Group's technical staffs could not visit customers' sites to carrying out their work, which delay eventually led to a significant increase in the operating costs. The Group had adopted a prudent attitude in choosing quality clients to achieve higher quality assurance. In the area of new business development, the Group had made great effort to explore the market of mobile fixed phone and value-added business. As a result, despite the decrease in gross margin, the Group had improvement in net profit when compared with the year 2002.

2. Product development

During the report period, the Group reinforced the research and development effort on the telecom operation support

system products by pinpointing at the respective research and development system. The Group had completed the research and development work of the new version and advanced and accomplished the structural framework of the products. At present, the Group is able to provide a complete solution for the telecom customers.

During the report period, the Group put forward a totally new concept for the management support system, replacing the previous enterprise information system. The respective product line was further advanced and applied. The Group had successfully developed tailor made software versions for different customers such as China Unicom, China Mobile and China Telecom, which had all gained practical application. At the same time, the Group had deployed more resources into the research and development of management support system and BPM products and achieved satisfactory results.

During the report period, the Group had consolidated the existing office automation system and enterprise management system. Standing on this base, the Group had developed the unified information platform R0 version, which had been used in Jiangxi Mobile, Zhejiang Mobile, Guizhou Mobile, Yunnan Mobile and Nei Mongol Mobile. The Group also developed the MSS (management support system) system for China Unicom, which had passed the trial run at Zhejinag Unicom. The Group had newly launched the business progress management system and made it the vital platform and management technique for the provision of scientific and quantitative management and assessment to telecom operators. This had laid down the foundation for the future development and promotion of business logistic management system by the Group.



Management Discussion and Analysis

During the report period, the Group continued its close co-operation with Zhejinag University and had strengthened its alliance with IBM.

3. Marketing and business development

During the report period, the Group had pleasing performance in the telecom market and further gained orders from a number of provincial telecom operators such as Gansu Telecom and the nine provinces of North China Division of China Telecom. The Group's major product lines had all successfully explored new market niches, which included the penetration of unified information platform system (management support system) into the nine provinces of North China Division of China Telecom and the four provinces of China Unicom as well as the entry of telecom support system into the nine provinces of North China Division of China Telecom. During the report period, the Group had further solidified the co-operation with renowned vendors and had successfully consolidated and advanced market distribution network and channels.

During the report period, the Group endeavored to promote the unified information platform system and achieved rewarding results. Besides gaining contracts from China Mobile in a number of provinces, the Group had obtained its first time entry into the China Unicom and China Telecom markets. This awarded to the Group conspicuous leading advantages within the country and had made the opportunity to further explore the China Telecom market wide open.

During the report period, the Group had intensified the effort in the research and

development and application of telecom support system and had a significant break through. At present, this product series had successfully entered into the China Telecom territory and had model construction works in China Telecom of more than ten provinces (area, cities). This had set up solid foundation for the forthcoming national wise promotion of the product series.

During the report period, the Group had opened up market resources, such as education business in Zhejiang Province and key telecom construction works, for its system integration business. At the same time, the Group also achieved effective results in the exploration of mobile fixed line phone market, which had created favourable conditions for the further expansion of its market share.

The Group had further explored its existing distribution channels and promoted communication products according to market needs. Meanwhile, the Group is the second place value-added service distributor of China Hua Wei Company national wise and had on hand a relatively stable clientele. The contribution of this business line to the Group will keep on growing.

4. Material investments and co-operation

During the report period, the Group underwent a series of strategic investments and co-operation, which enabled the Group to have a harmonic development in the product research and development, business exploration and market operation.

The Group entered into an agreement with Shanghai Haigang Communication Technology Company Limited ("Shanghai



Management Discussion and Analysis

Haigang”) and its shareholders in August 2004 pursuant to which the Group disposed of its 51% interest in Shanghai Langang Communication Technology Company Limited (“Shanghai Langang”) at a consideration of RMB2,400,000, while the shareholders of Shanghai Haigang disposed of their 30% interest in Shanghai Haigang to the Group at a consideration of RMB2,400,000. Thereafter the Group owns 30% interest in Shanghai Haigang and does not own any stake in Shanghai Langang. Shanghai Langang was established in December 2001 with a registered capital of RMB1,000,000. Prior to the abovementioned transactions, Shanghai Langang was owned as to 51% by the Group and 49% by Shanghai Haigang. The share swap marked the termination of direct management of the wireless paging business by the Group. Shanghai Haigang will become the biggest supplier of wireless paging system and related value-added service.

The Group will continue to work closely with Zhejiang University and invest in the research and development of products which are of promotional value to the Group.

5. Employees information

- As at 31 December 2003, the Group had 354 (2002: 320) employees in total and the total staff costs incurred by the Group for the year amounted to approximately RMB12,828,000 (2002: RMB9,431,000).
- The Group employs the target annual compensation system, which is an integrated system linking the performance of the respective department and an individual staff and

the remuneration of the individual staff. According to the Group’s compensation system, salary grading of individual staff will firstly be made based on the position, grading and ability of the staff. On this base and taking into account the performance target of the respective department, the performance target and hence the target annual salary of the individual staff will be determined. The release of target annual salary will base on performance appraisal. If the performance of the respective department achieves target, the individual staff will be awarded the whole target annual salary. In case of under-achievement of target, deduction from the target annual salary will be made. In case of over-achievement of target, surplus over target annual salary will be paid. If surplus payments have been made many times, then the target annual salary will be adjusted. Through the combination of performance appraisal and target annual salary, the Group has effective management over performance and results. At the same time, the Group can put forward effect incentive schemes for the staff. The direct linkage between staff income, individual performance target and performance target of the respective department will assure the accomplishment of target of the Group. The Group believes that the said target annual compensation system fully reflects the technology spirit that people are the heart of high-tech companies, and is able to ensure the increase of the Group’s results. The Group has not issued any share options nor has any bonus plan.



Management Discussion and Analysis

- The Group stresses on the training of quality and technique of its staff. The Group has conducted regular assessments of staff abilities and internal training requirements. The Group has employed professional consultancy companies to design training system and training courses. The Group has arranged staff to join various training programs in accordance with the number of staff requiring the training and the direction of training needed. The Group helps its staffs to grow in the area of management ability, business skill and creation of personality, which will enhance the development of the Group. Through the training process, the Group is able to adjust the knowledge and technique component of the staff, enabling the Group to secure a continuous supply of talents. The Group believes that good quality training system help to retain high calibrate staff and increase the competing edge of the Group.
- As at 31 December 2003, the Group had a total asset value of approximately RMB261,690,000 (2002: RMB193,839,000).
- As at 31 December 2003, the Group had current liabilities of approximately RMB112,338,000 (2002: RMB59,292,000).
- As at 31 December 2003, the Group had shareholders' equity of approximately RMB142,629,000 (2002: RMB130,389,000).
- As at 31 December 2003, the Group had minority interests of approximately RMB6,723,000 (2002: RMB4,158,000).
- As at 31 December 2003, the Group had a gearing ratio (the ratio of liabilities to total assets) of approximately 42.93% (2002: 30.59%).
- As at 31 December 2003, the Group had a net current ratio (the ratio of current liabilities to current assets) of approximately 46.15% (2002: 32.85%).

Financial Review

- The Group has maintained sound financial conditions. For the year ended 31 December 2003, the Group was mainly financed by funds generated from daily operations, bank borrowings and the listing proceeds.
- As at 31 December 2003, the Group's cash and bank balances amounted to approximately RMB94,531,000 (2002: RMB62,497,000).
- As at 31 December 2003, the Group had outstanding short-term borrowings amounted to RMB65,000,000 (2002: RMB10,000,000).
- Since substantially all of the Group's revenue is in Renminbi and its expenses are paid in Renminbi, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk.
- As at 31 December 2003, the Group had no contingent liabilities (2002: nil).
- As at 31 December 2003, bank deposits amounting to approximately RMB11,619,000 (2002: RMB5,527,000) was pledged to secure general banking facilities of the Group.



Management Discussion and Analysis

Future Prospects

1. Orders and contracts in hand

The Group has orders in hand with an aggregate amount not less than RMB45,000,000. Orders obtained in the area of telecom support include the third phase project of the integrated customer service system for the North Division of the China Telecom, the "97" reform project for the South Division of China Telecom and the operation analysis system project for the South Division of China Telecom. Orders obtained in the area of enterprise management support system include the second phase project of office automation system for the nine provinces of the North Division of the China Telecom, EAI platform project for Shanghai Guangding and business process management system (BPM) for Tianjin Unicom.

2. Prospects of new business and new products

The Group will persist making effort on the marketing and promotion of telecom support system. In the area of operation support system, the Group will focus on the reformation projects in various provinces of the South Division of the China Telecom such as Jiangxi, Guangdong, Zhejiang and Hubei and also in Xinjiang and Qinghai. In the area of telecom operation analysis system, the Group will concentrate in Hubei and Yunnan China Telecom and the system construction work of the China Netcom headquarters.

The Group will rationalize and properly manage the support system products, consolidate its existing applications in the market of China Mobile, China Netcom and China Telecom. The Group will gradually turn the systems into products and establish the one stop system within the industry. In the year 2004, the Group will chiefly explore the telecom industry. The first phase construction of the office system of the nine provinces in the North Division of China Telecom, which was supplied by the Group, had been put on-line in October 2003. The second phase construction will be carried out by the North Division of China Telecom in the year 2004. On the other hand, each of the branch companies in the nine provinces will have its own requirements and this give rise to the huge market in the North Division of China Telecom. Meanwhile, the China Telecom market in Zhejiang and other provinces will also be the main target of the Group in the year 2004. In addition, the Group intends to consolidate other IBM software such as Sametime, WebSphere MQ etc. within the management support system so as to reinforce the function of the intelligent office system and enhance product competitiveness.

In the area of the communication products, the Group has maintained good and long term co-operation relationship with certain operators in Hebei, Shanxi, Nei Mongol and Heilongjiang and also the local sales offices of Hua Wei Company. As authorized distributor of Hua Wei Company, the Group will make use of the local sales network of Hua Wei Company to further promote Hua Wei Company's products and the Group's self developed software products.



Management Discussion and Analysis

Furthermore, the Group's terminal product division will make an effort in the exploration of new market. While solidifying the existing client base, the Group will continue to increase sales value. The Group will mainly explore new markets in Liaonang and Guizhou and expects that satisfactory income will be generated there from. The Group will extend the good track record in the sales of public phones in 2003 to the present year and will increase the sales volume of public phones.

3. New investment projects and source of funding

The Group plans to increase the investment in value-added service business in the year 2004. By way of increasing the capital base of subsidiaries and acquiring outside companies, the Group will consolidate its value-added service business and increase its market share in the value-added service market. The principal sources of financing will be internal savings and bank borrowings.



Business Objectives Review

Comparison of actual business progress to the business objectives

The following is a summary comparison of the actual business progress for the year ended 31 December 2003 with the business objectives as set out in the prospectus issued by the Company on 24 April 2002 (the "Prospectus").

	Business objectives as set out in the Prospectus	Actual business progress
Product enhancement and development		
Data communication solutions	Upgrade the wireless communication system to version 2.0	Completed
	Upgrade the wireless communication system to version 3.0	According to market needs, the research and development work of this system has been bundled with that of wireless value-added business
	Conduct R & D on an enhanced gateway link based a more advanced wireless communication standard	Completed
	Release an enhanced version of the data switch platform utilizing a CTI provided by a multinational telecommunications equipment provider	Completed
	Launch an integrated data system	R & D work of the product has been completed. Products have been promoted to Qinghai Mobile and provincial telecom operators such as Nei Mongol
	Enhance the quality of the integrated data system	Completed



Business Objectives Review

	Business objectives as set out in the Prospectus	Actual business progress
<i>Telecom operation supports solutions</i>	Release the prototype of a mobile-based e-mail management system	Completed and is in the process of testing. Products have been successfully promoted to provincial telecom operators such as Zhejiang Unicom
	Develop and launch the mobile-based e-mail management system	According to market needs, the research and development work of this system has been bundled with that of wireless value-added business
	Develop and launch the video-conferencing enabling system	The development has been postponed due to market changes
	Develop CRM capability in the telecom OA system	R & D work of the product has been preliminary completed. The test version of the product has been launched
	Develop data analysis capability in the telecom OA system	Completed
	Launch a residential network management system	Completed and have been put in use. Products have been promoted to North China Division of China Telecom
	Enhance the functionality of the broadband Internet CRM system	Have significant progress and the results of development have been applied practically
	Launch an integrated online telecom management system to provide telecom operators with an effective e-commerce platform	Have been launched and used by a number of provinces
	Enhance the integrated online telecom management system	Completed



Business Objectives Review

	Business objectives as set out in the Prospectus	Actual business progress
Sales and marketing		
<i>Data communication solutions</i>	<p>Create brand awareness by advertising in telecommunications magazines and through other multimedia</p> <p>Participate in telecommunications exhibitions and conventions</p> <p>Launch major marketing campaigns on wireless value-added systems</p> <p>Establish joint-sales efforts with multinational data switch platform providers</p>	<p>Have published the Group's own monthly magazine to telecom operators national wise. Have published product white cover book widely to customers. Have advertised to customers through media advertisement such as Computer World, The People's Post and Telecom Newspaper</p> <p>Have held a seminar with the senior management of the nine provinces in the North Division of China Telecom</p> <p>Related activities in mainland had been cancelled or postponed due to influence of SARS</p> <p>Have not been proceeded due to influence of SARS</p>
<i>Telecom operation supports solutions</i>	<p>Create brand awareness by advertising in telecommunications magazines and through other multimedia</p>	<p>Have published the Group's own monthly magazine to telecom operators national wise. Have published product white cover book widely to customers. Have advertised to customers through media advertisement such as Computer World, The People's Post and Telecom Post</p>



Business Objectives Review

Business objectives as set out in the Prospectus

Participate in telecommunications exhibitions and conventions

Establish strategic alliances with suppliers

Actual business progress

Have held a seminar with the senior management of the nine provinces in the North Division of China Telecom

Have entered into agreement with Hua Wei Company to jointly develop telecommunication market. Have interflow activities with a number of suppliers

Have maintained good co-operation with IBM and become TA of IBM

Strategic investments and business collaborations

Data communication solutions

Establish strategic alliances with reputable multinational data switch platform providers to strengthen the Group's brand

To seek opportunity in the investment or acquisition of a broadband value-added system provider

Have entered into core co-operation agreement with Hua Wei Company and became its authorized senior distributor

Have strengthened the close co-operation with renowned multinational companies such as IBM

The Group plans to invest in or acquire a broadband value-added system provider in 2004



Business Objectives Review

	Business objectives as set out in the Prospectus	Actual business progress
Strategic investments and business collaborations		
<i>Teleom operation supports solutions</i>	Seek opportunity in business collaborations with reputable global firms to enhance the Group's image	The Group has established high level and stable co-operation relationship with IBM and become authorized distributor of Hua Wei Company for its 3COM value-added products
	Establish strategic alliances with multinational companies on the development of broadband internet management system	Have in-depth communication with a reputable international broadband operator, VERSO Company, and have reached an intention of co-operation

Employment of human resources

Number of employees


Management	25	31
Research and product development	195	238
Sales and marketing	50	53
Administration and finance	30	32
	300	354

Use of proceeds

	<i>HK\$'000</i>	<i>HK\$'000</i>
Product enhancement and development	11,600	13,000
Sales and marketing	6,200	9,700
Strategic investments and business collaboration	8,000	8,000
General working capital	2,000	3,400
	27,800	<i>(note)</i> 34,100

Note:

As the actual progress in respect of the development and promotion of certain products was in advance of the target, related operating expenditure was in excess of budget as set out in the Prospectus. The abovementioned expenditure was all funded by the listing proceeds.



Directors, Supervisors and Senior Management

Directors

Executive directors

Mr. Chen Ping, 40, is the chairman and the general manager of the Company, an advisor to students seeking their master degree and an associate professor at Zhejiang University who does not conduct lectures or teaches at Zhejiang University. Instead, Mr. Chen spends on average five to ten hours per week to supervise his R & D students at the Research Center. As the general manager, 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 Xhejinag 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 seven years up to 1997. Mr. Chen has published more than ten of his academic papers. Mr. Chen joined the Group in May 1997.

Mr. Zhao Jian, 38, is a director, a vice chairman and senior engineer of the Company and the president of 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 (浙江浙大海纳科技股份有限公司), a listed company on the Shenzhen Stock Exchange that is involved in the R & D, manufacturing and sale of semi-conductors

and automated control systems, conducting investment management. Mr. Zhao was also the executive of the Software Industry Association of Zhejiang, then 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 University Innovation Information Holdings Company Limited to occasionally supervise, provide consultation service and introduce potential business partners to the Group.

Mr. Xue Shi Cheng, 40, 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 reorganization 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, 49, is a director of the Company, the supervisor of the Research Center, a professor of Zhejiang University, an advisor to doctorate students, the principal of Zhejiang University's Software College, the vice principal of Zhejiang University's College of Computer College and the supervisor of Zhejiang University Computing Software Research Institute. 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 does not participate in the daily management of the Group and mainly provide consultation service and introduce potential business partners to the Group. Mr. Xue joined the Group in April 2001.

Non-executive director

Mr. Hu Yang Jun, 31, is a non-executive director of the Company. Mr. Hu graduated with a bachelor degree from Anhui Normal University. During his study period, Mr. Hu was major in Chinese Language and Literature and minor in International Trade Profession. Mr. Hu joined the Group in February 2004. Before joining the Group, Mr. Hu was the manager of the import and export division of Zhejiang Dongfang Group and the deputy general manager of Zhejiang Ju Neng Dongfang Holdings Company Limited.

Independent non-executive directors

Mr. Cai Xiao Fu, 65, is a senior engineer and the chairman of Zhejiang Software Industry Association, overseeing the development of Zhejiang Province 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 research aeronautics and computer simulation devices. Mr. Cai joined the Group in October 2001.

Mr. Zhang De Xin, 74, 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 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-times 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, 39, 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 China Institute of Certified Public Accountants and an associate member of Hong Kong Society of Accountants. Mr. Wang joined the Group in October 2001.

Supervisors

Supervisors

Mr. Wang Wei Li, 27, 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, the FLEX system. Mr. Wang joined the Group in July 1998.

Mr. Fu Liang Yuan, 48, 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 financial department. Mr. Fu was fully responsible for the work in the finance department of the 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, 34, 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 meeting of the Company. Mr. Gu is an assistant accountant. Mr. Gu graduated from Fudan University of 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, 67, 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 meeting of the Company. Mr. Feng was the deputy chief engineer of the 52nd Research Officer of Ministry of Information Industry of the Research Institute and Chief Editor of "External Computing Equipment". Mr. Feng is now the Chief Secretariat of the Zhexiang Computing User Association and Reporter Officer of the China Computing News in Zhexiang. Mr. Feng joined the Group in October 2001.



Directors, Supervisors and Senior Management

Senior Management

Mr. Chen Wei, 39, is the executive president of the Company. Mr. Chen graduated from Zhejiang Industrial University and majored in Electronic Survey Profession. Before joining the Group, Mr. Chen was the deputy general manager of Zhejiang Hong Cheng Computer System Company Limited and Zhejiang University Innovation Electronic Information Company Limited. Mr. Chen joined the Group in January 2003.

Ms. Liu Qiao Ping, 31, is the vice administrative president and the secretary of the Board of the Company. She graduated from the University of Petroleum (Eastern China). Ms. Liu joined the Group in April 1998.

Mr. Zhao Zhong Ping, 39, is the assistant to president and the general manager of the financial management headquarter. He graduated from Zhejiang University. Mr. Zhao joined the Group in March 2002.

Ms. Chan Ching Yi, Yvonne, 29, is the company secretary and the qualified accountant of the Company. Miss Chan is an associate member of the Association of Chartered Certified Accountants and has over 6 years of experience in auditing and accounting matters. Miss 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 31 December 2003.

Articles of Association

The Company held annual general meeting on 16 May 2003 to amend the Articles of Association 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 16 to the financial statements.

An analysis of the Group’s turnover and profit from operations by activities is set out in note 4 to the financial statements.

Results and Appropriations

The Group’s results for the year ended 31 December 2003 and its state of affairs as at that date are set out in the financial statements on pages 32 to 70 of the annual report.

The Board recommended the profit attributable to shareholders for the year ended 31 December 2003 be appropriated as follows:

	<i>RMB’000</i>
Transfer to statutory surplus reserve	2,042
Transfer to statutory public welfare reserve	1,021
Payment of a final dividend of RMB0.01 per share	3,396
	<hr/>
	6,459

Fixed Assets

Details of movements in the fixed assets of the Group and the Company during the year are set out in note 14 to the financial statements.

Borrowings and Interest Capitalisation

Particulars of bank loans are set out in note 23 to the financial statements. The Group did not capitalized any interest during the year.



Report of the Directors

Share Capital

Details of the Company's share capital are set out in note 24 to the financial statements.

Reserves

Details of the reserves of the Group and the Company are set out in note 25 to the financial statements.

Retirement Plan

Details of the retirement benefit schemes of the Group are set out in note 2(n) to the financial statements.

Major Customers and Suppliers

During the year, the five largest customers of the Group in aggregate accounted for approximately 40.91% of the Group's turnover and the largest customer of the Group accounted for approximately 11.96% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 42.12% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 14.22% of the Group's direct purchases for the year.

None of the Company's directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5 % of the Company's issued share capital) had any interest in any of the five largest customers and five largest suppliers of the Group for the year ended 31 December 2003.

Financial Summary

A summary of the Group's results for each of the five years ended 31 December 2003 and the Group's assets and liabilities as at 31 December 1999, 2000, 2001, 2002 and 2003 is set out on pages 71 to 72 of the annual report.



Report of the Directors

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 (resigned on 1 February 2004)

Non-executive director

Mr. Hu Yang Jun (appointed on 1 February 2004)

Independent non-executive directors

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

Supervisors

Mr. Wang Wei Li
Mr. Fu Liang Yuan
Mr. Li Yao Ting (resigned on 15 October 2003)

Independent supervisors

Mr. Gu Yu Lin
Mr. Feng Pei Xian

Directors and Supervisors' Service Contracts

Except for the newly appointed director, each of the directors and supervisors has entered into a three-year service agreement with the Company, which commenced from 15 October 2001. The service period of the newly appointed director, Mr. Hu Yang Jun, will expire at the conclusion of the forthcoming annual general meeting. The service agreement with Mr. Li Yao Ting was terminated upon his resignation on 15 October 2003.

Save as disclosed above, none of the directors nor the supervisors proposed for re-election at forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.



Report of the Directors

Biographical Details of Directors, Supervisors and Senior Management

Biographical details of the directors, supervisors and senior management are set out on pages 17 to 20 of the annual report.

Directors' and Supervisors' Remuneration and Highest Paid Employees

Details of the directors' and supervisors' remuneration and that of the highest paid employees are set out in note 13 to the financial statements.

Directors', Supervisors' and Chief Executives' Interests in Securities

Save as disclosed below, as at 31 December 2003, none of the Directors, Supervisors or chief executives had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFC")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

Long position in shares

Name	Type of interests	Capacity	Number of domestic shares held	Percentage of beneficial interests in the Company's share capital
<i>Directors</i>				
Chen Ping	Personal	Beneficial owner	36,392,320	10.72%
Bao Shu Xin <i>(resigned on 1 February 2004)</i>	Personal	Beneficial owner	8,643,170	2.55%
Chen Chun	Personal	Beneficial owner	4,094,130	1.21%

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 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.

Report of the Directors

Directors', Supervisors' and Chief Executives' Rights to Acquire Shares

Save as disclosed herein, during the year ended 31 December 2003, none of the Directors, Supervisors or chief executives was granted options to subscribe for shares of the Company. As at 30th June, 2003, none of the Directors, Supervisors or chief executives or any of their spouses and children under 18 years of age had any interest in, or had been granted 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 of the Company and their respective associates (as defined under the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") had any interest in a business which competes or may compete with the business of the Group.

Interest Disclosable Under the SFO and Substantial Shareholders

Save as disclosed below, so far as was known to any Directors, Supervisors or chief executives, as at 31 December 2003, no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the shares or underlying share of the Company which would fall to be disclosed under Division 2 and 3 or Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; or who were substantial shares as recorded in the register maintained under section 336 of the SFO:

Shareholder	Number of domestic shares held	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%
Shi Chu Hua	16,490,280	4.86%
Wu Zhong Hao	16,490,280	4.86%



Report of the Directors

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 20 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 preceding 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.



Report of the Directors

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2003.

Per-emptive Rights

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

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 31 December 2003.

Pursuant to the sponsor agreement dated 24 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 31 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 the third quarterly report of the Group.

Board Practices and Procedures

Since its listing on the GEM on 3 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.



Report of the Directors

Auditors

During the year, Messrs. PricewaterhouseCoopers resigned as auditors of the Group and Messrs. RSM Nelson Wheeler was appointed as auditors of the Group to fill the casual vacancy, and to hold office until the conclusion of the forthcoming annual general meeting.

A resolution for the re-appointment of auditors for the year 2004 will be proposed at the forthcoming Annual General Meeting, authorising the Board to appoint auditors and fix their remuneration.

On behalf of the Board

Chen Ping

Chairman

29 March 2004

Hangzhou, the PRC



Report of the Supervisory Committee

To Shareholders:

1. Meeting of the Supervisory Committee in 2003

The Supervisory Committee met twice during the report period.

A meeting of the Supervisory Committee was held on 29 March 2004, at which The Committee reviewed the operation of the Company and examined whether the Board and senior management of the Company had performed their obligations with good faith and due diligence.

2. Supervision and examination by the Supervisory Committee

During the report period, the Supervisory Committee supervised and examined the Board, senior management and operations of the Company in accordance with the provisions and mandate from the Company Law and Articles of Association. 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:

1. The notice, convocation and voting procedures of the seven meetings of the Board during the report period, all of which were attended by the Supervisors, were legitimate, the information provided in the resolutions were sufficient, clear, and the voting procedure was fair and transparent.
2. During the report period, the Company continued to improve its internal control system to further strengthen the structure of the Company and establish modern enterprise systems, enabling the management entering a new platform.
3. The Board and senior management had 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.
4. The Company had followed the Rules Governing the Listing of Securities on GEM to disclose information and promote to the public in an accurate, true and fair manner.



Report of the Supervisory Committee

3. Highlights for 2004

In the future, 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, ensuring the Company to operate legally and properly. The Supervisory Committee will actively participate in the examination of the operation of the Company and further improve its working style of providing consultancy and service for the operation of the Company.

4. This report will be laid before the Shareholders' general meeting 2003 for approval.

By order of the Committee

Wang Wei Li

Chairman of the Supervisory Committee

29 March 2004

Hangzhou, the PRC

RSM! Nelson Wheeler

羅申美會計師行

Certified Public Accountants

TO THE SHAREHOLDERS OF ZHEDA LANDE SCITECH LIMITED

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

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 31 December 2003 and the related consolidated income and cash flow statements for the year then ended, and the balance sheet of the Company as of 31 December 2003. These financial statements set out on pages 32 to 70 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 31 December 2003, 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.

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong
29 March 2004



Consolidated Income Statement

For the year ended 31 December 2003

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

	Note	2003	2002
Turnover	4	164,551	95,458
Cost of sales		(117,464)	(61,540)
Gross profit		47,087	33,918
Other operating income	5	4,427	2,673
Distribution costs		(12,290)	(5,858)
Administrative expenses		(18,095)	(13,462)
Other operating expenses		(1,077)	(96)
Profit from operations	6	20,052	17,175
Finance costs, net	8	(2,323)	(1,104)
Share of losses of associates		(542)	–
Profit before taxation		17,187	16,071
Taxation	9	(785)	(2,847)
Profit before minority interests		16,402	13,224
Minority interests		(4,162)	(1,704)
Net profit attributable to shareholders	10	12,240	11,520
Dividend			
– Proposed final	11	3,396	–
Earnings per share			
– Basic	12	RMB0.036	RMB0.038

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

Consolidated Balance Sheet

As at 31 December 2003

(All amounts in RMB thousands)

	Note	2003	2002
Non-current assets			
Fixed assets	14	8,111	6,386
Intangible assets	15	4,780	5,904
Interests in associates	17	4,949	–
Long-term prepayments		418	1,040
		18,258	13,330
Current assets			
Inventories	18	9,538	6,714
Contract work in progress		22,230	3,240
Trade receivables	19	60,549	61,203
Prepayments and other receivables	20	56,584	46,855
Pledged bank deposits	21	11,619	5,527
Cash and bank balances	26(a)	82,912	56,970
		243,432	180,509
Current liabilities			
Trade payables and notes payables	21, 22	36,216	24,621
Receipt in advance from customers		8,507	14,770
Accruals and other payables		1,752	7,222
Provision for taxation		863	2,679
Short-term borrowings	23	65,000	10,000
		112,338	59,292
Net current assets		131,094	121,217
Total assets less current liabilities		149,352	134,547
Non-current liabilities			
Minority interests		6,723	4,158
NET ASSETS		142,629	130,389
Capital and reserves			
Share capital	24	33,958	33,958
Reserves	25	108,671	96,431
OWNERS' EQUITY		142,629	130,389

Approved by the Board of Directors on 29 March 2004

CHEN PING
Director

XUE SHI CHENG
Director

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



Balance Sheet

As at 31 December 2003

(All amounts in RMB thousands)

	Note	2003	2002
Non-current assets			
Fixed assets	14	5,095	5,192
Intangible assets	15	4,780	5,904
Interests in subsidiaries	16	43,930	29,842
Interests in associates	17	4,949	–
Long-term prepayments		418	1,040
		59,172	41,978
Current assets			
Inventories	18	1,915	4,088
Contract work in progress		22,165	2,064
Trade receivables	19	40,094	54,472
Prepayments and other receivables	20	34,537	27,262
Pledged bank deposits	21	11,619	5,527
Cash and bank balances		71,578	51,371
		181,908	144,784
Current liabilities			
Trade payables and notes payables	21, 22	34,559	23,127
Receipt in advance from customers		7,950	14,434
Accruals and other payables		343	6,524
Provision for taxation		599	2,288
Short-term borrowings	23	55,000	10,000
		98,451	56,373
Net current assets		83,457	88,411
NET ASSETS		142,629	130,389
Capital and reserves			
Share capital	24	33,958	33,958
Reserves	25	108,671	96,431
OWNERS' EQUITY		142,629	130,389

Approved by the Board of Directors on 29 March 2004

CHEN PING
Director

XUE SHI CHENG
Director

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

Statements of Changes in Equity

For the year ended 31 December 2003

(All amounts in RMB thousands)

Group

	Reserves						Total
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Retained earnings	Proposed final dividend	
	Note 24		Note 25(a)	Note 25(b)	Note 25(c)	Note 11	
Balance at 1 January 2002	22,745	–	1,306	1,306	10,311	–	35,668
Issuance of H shares	11,213	87,490	–	–	–	–	98,703
Listing expenses	–	(15,502)	–	–	–	–	(15,502)
Net profit for the year	–	–	–	–	11,520	–	11,520
Profit appropriations	–	–	1,371	685	(2,056)	–	–
Balance at 1 January 2003	33,958	71,988	2,677	1,991	19,775	–	130,389
Net profit for the year	–	–	–	–	12,240	–	12,240
Profit appropriations	–	–	2,042	1,021	(3,063)	–	–
Dividend – Proposed	–	–	–	–	(3,396)	3,396	–
Balance at 31 December 2003	33,958	71,988	4,719	3,012	25,556	3,396	142,629

Company

	Reserves						Total
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Retained earnings	Proposed final dividend	
	Note 24		Note 25(a)	Note 25(b)	Note 25(c)	Note 11	
Balance at 1 January 2002	22,745	–	1,742	871	10,310	–	35,668
Issuance of H shares	11,213	87,490	–	–	–	–	98,703
Listing expenses	–	(15,502)	–	–	–	–	(15,502)
Net profit for the year	–	–	–	–	11,520	–	11,520
Profit appropriations	–	–	1,152	576	(1,728)	–	–
Balance at 1 January 2003	33,958	71,988	2,894	1,447	20,102	–	130,389
Net profit for the year	–	–	–	–	12,240	–	12,240
Profit appropriations	–	–	1,224	612	(1,836)	–	–
Dividend - Proposed	–	–	–	–	(3,396)	3,396	–
Balance at 31 December 2003	33,958	71,988	4,118	2,059	27,110	3,396	142,629

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



Consolidated Cash Flow Statement

For the year ended 31 December 2003

(All amounts in RMB thousands)

	2003	2002
Cash flows from operating activities		
Profit before taxation	17,187	16,071
Depreciation	2,462	1,382
Amortisation of intangible assets	2,324	2,080
Impairment loss of intangible assets	300	–
Provision for bad and doubtful debts	2,589	2,379
Share of losses of associates	542	–
Loss on disposals of fixed assets	3	95
Loss on disposal of a subsidiary	547	–
Interest income	(830)	(534)
Interest expenses	3,100	1,311
Operating profit before working capital changes	28,224	22,784
Inventories	(2,915)	(6,691)
Contract work in progress	(18,990)	2,437
Trade receivables	(6,103)	(31,540)
Prepayments and other receivables	(10,835)	(36,309)
Trade payables and notes payables	11,595	22,381
Receipt in advance from customers	(6,263)	8,890
Accruals and other payables	(5,235)	4,203
Cash used in operations	(10,522)	(13,845)
Interest income received	830	206
Interest expenses paid	(3,100)	(1,311)
Taxation paid	(2,782)	(2,058)
Taxation refund	181	–
Net cash outflow from operating activities	(15,393)	(17,008)

Consolidated Cash Flow Statement

For the year ended 31 December 2003

(All amounts in RMB thousands)

	Note	2003	2002
Cash flows from investing activities			
Purchases of fixed assets and intangible assets		(6,026)	(12,237)
Decrease/(Increase) in pledged bank deposits and time deposits with maturity of more than 3 months		22,743	(34,362)
Dividend paid to minority shareholders		(90)	–
Due from associates		(1,091)	–
Investments in associates		(4,400)	–
Proceeds from disposal of fixed assets		336	72
Acquisition of a subsidiary	26(b)	–	(701)
Disposal of a subsidiary	26(c)	2,373	–
Net cash inflow/(outflow) from investing activities		13,845	(47,228)
Cash flows from financing activities			
Drawdown of bank borrowings		135,000	(10,000)
Repayment of bank borrowings		(80,000)	–
Dividend paid		–	(459)
Proceed from issuance of shares		–	83,185
Capital injection from minority shareholders on establishment of a subsidiary		1,325	1,648
Net cash inflow from financing activities		56,325	74,374
Net increase in cash and cash equivalents		54,777	10,138
Cash and cash equivalents at beginning of year		28,135	17,997
Cash and cash equivalents at end of year	26(a)	82,912	28,135

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

1. GENERAL INFORMATION

Zheda Lande Scitech Limited (the "Company") was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 20 September 2001. On 24 April 2002, the Company issued 112,125,000 overseas public shares ("H shares") which have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 May 2002.

The Company is principally engaged in the provision of telecommunication solutions, trading of computer hardware and software and investments holdings. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

The registered office of the Company is located at 4F, No.108 Gui Cui Road, Xihu District, Hangzhou, the PRC.

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

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 balance sheet date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates based on management's best knowledge of current event and actions, actual results ultimately may differ from these estimates.

(b) Subsidiaries

Subsidiaries are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Subsidiaries *(continued)*

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when 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. Accounting policy on goodwill is set out in note 2(f)(i) below.

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 Company.

Investments in subsidiaries are accounted for using the equity method of accounting in the Company's financial statements.

(c) Associates

Associates are companies over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence.

Investments in associates are accounted for by the equity method of accounting in the financial statements of the Company and the Group. Under this method the Company's and the Group's share of post-acquisition profits or losses of associates is recognised in the income statement and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

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.

(d) Related parties

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Foreign currencies translation

The Group maintains their books and records in RMB.

Foreign currency transactions are translated into 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.

(f) Intangible assets

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

(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 or 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 resulting from the acquisition of subsidiary is amortised over five years on a straight-line basis.

(ii) *Computer software*

Purchase costs of identifiable and unique software products which are 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 amortised over three years on a straight-line basis. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated using the straight-line method to write off the cost of assets over their useful lives as follows:

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

Where the carrying amounts 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 income statement.

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.

(h) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes 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 estimated costs necessary to make the sales.

(j) Contract work in progress

Contract work in progress comprises cost of raw materials, direct labour, other direct costs and related overheads incurred for telecommunication solutions contracts not yet completed at the balance sheet date.

(k) 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.

(l) Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Deferred taxation

Deferred taxation is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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.

(n) Employee benefit costs

The Group contributes on a monthly basis to the retirement benefit schemes for the Group's employees to a government agency based on certain percentages of the standard salary set by the provincial government. The Group accounts for these contributions on an accrual basis.

The Group also provides housing fund, unemployment insurance and other welfare benefits for its employee based on certain percentage of the standard salary set by the provincial government. These staff welfare benefits are accounted for on an accrual basis.

(o) Provision and contingent liabilities

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) 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.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Income from provision of telecommunication solutions*

Income from provision of telecommunication solutions 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) *Trading of hardware and computer software*

Revenue is recognised when the significant risks and rewards of ownership of the goods are transferred to the customers, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(iii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

(iv) *Subsidy income*

Subsidy income is recognised upon cash receipt.

(v) *Dividend income*

Dividend are recognised upon when the right to receive payment is established.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Segmental information

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing borrowings, corporate assets and corporate liabilities.

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

3. FINANCIAL INSTRUMENTS

(a) Credit risks

(i) Trade receivables

At 31 December 2003, the Group's trade receivables of approximately RMB60,549,000 (2002: RMB61,203,000) mainly represented trading balances due from customers in the telecommunication industry. The collectibility of these receivables may be adversely affected by economic changes in the telecommunication industry. Risks, or the risk of counterparties defaulting, are controlled by the Group's application of ongoing monitoring procedures.

(ii) Prepayments to suppliers

The Group is generally required by major customers to make prepayments to suppliers for the acquisitions of hardware and computer software in relation to telecommunication solutions contracts which are still under negotiation with these customers. At 31 December 2003, the Group's prepayments to suppliers of this nature amounted to approximately RMB17,839,000 (2002: RMB19,311,000). The recoverability of these balances may be adversely affected by non-execution of the relevant contracts because of changes in business practise and relationship previously built up with these major customers. Credit risks are controlled by agreeing refund clauses for goods or services ordered with the suppliers.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL INSTRUMENTS *(continued)*

(b) Interest rate risk

The Group's exposure to interest rate risk relates principally to its interest-bearing bank loans. These loans bear interests at floating rates varied with the then prevailing market condition.

(c) Liquidity risk

The Group manages the liquidity risk by ensuring the availability of funding through an adequate amount of committed banking facilities. Due to the nature of the Group's underlying business, management aims at maintaining flexibility in funding by keeping committed bank lines available.

(d) Fair values

The fair values of the amounts with related parties and minority shareholders are not determinable due to the related party nature of the transactions. Apart from the foregoing, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the balance sheets approximate their respective net fair values.

4. TURNOVER AND SEGMENT INFORMATION

Turnover comprises income from provision of telecommunication solutions, trading of hardware and computer software and provision of related service, net of value-added tax ("VAT"), business tax, rebates and discounts, during the year, and after eliminating intra-Group transactions.

Segment information

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segments; and (b) on a secondary segment reporting basis, by geographical segment.

(a) *Primary reporting segment – business segments*

The Group comprises the following main business segments:

- (i) Provision of telecommunication solutions;
- (ii) Trading of hardware and computer software;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

4. TURNOVER (continued)

Segment information (continued)

(a) Primary reporting segment – business segments (continued)

(iii) Other related service which represents the provision of telecommunication value-added services.

	Provision of Telecommunications solutions		Trading of hardware and computer software		Other related service		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment turnover	71,394	70,187	84,148	25,271	9,009	–	164,551	95,458
Segment results	18,065	29,779	11,373	(1,719)	5,358	–	34,796	28,060
Unallocated revenue							4,427	2,673
Unallocated expenses							(19,171)	(13,558)
Profit from operations							20,052	17,175
Finance costs, net							(2,323)	(1,104)
Share of losses of associates							(542)	–
Profit before taxation and minority interests							17,187	16,071
Taxation							(785)	(2,847)
Minority interests							(4,162)	(1,704)
Net profit attributable to shareholders							12,240	11,520
Segment assets	102,984	107,047	146,607	71,311	5,930	–	255,521	178,358
Interests in associates							4,949	–
Unallocated assets							1,220	15,481
Total assets							261,690	193,839
Segment liabilities	6,204	18,708	8,801	8,487	894	–	15,899	27,195
Unallocated liabilities							96,439	32,097
Total liabilities							112,338	59,292
Other segment information:								
Capital expenditure	2,494	8,709	2,933	2,291	599	–	6,026	11,000
Provision for bad and doubtful debts	1,259	1,811	1,330	568	–	–	2,589	2,379
Depreciation	73	63	241	25	27	–	341	88
Amortisation	2,299	2,053	–	–	–	–	2,299	2,053



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

4. TURNOVER (continued)

Segment information (continued)

(b) Secondary reporting segment – geographical segment

The Group operates within one geographical segment, namely the PRC. Accordingly, no geographical segment information is presented.

5. OTHER OPERATING INCOME

	2003	2002
Subsidy income		
Net VAT refund (Note (a))	4,123	1,606
Other subsidy (Note (b))	–	449
Other income	304	618
	4,427	2,673

Note:

- (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 refund of the amount of actual tax burden exceeding 3%. VAT refund is recorded upon receipt.
- (b) The balance represents the subsidy granted by Hangzhou local government to encourage the Company's technical innovation and improvements.

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging the following:

	2003	2002
Depreciation of fixed assets	2,462	1,382
Amortisation of intangible assets	2,324	2,080
Impairment loss of intangible assets	300	–
Loss on disposals of fixed assets	3	95
Loss on disposal of a subsidiary	547	–
Research and development costs	2,065	1,000
Operating lease rentals for office premises	2,404	1,175
Cost of inventories sold	117,464	61,540
Provision for bad and doubtful debts	2,589	2,379
Auditors' remuneration	387	525
Staff costs (excluding directors' and supervisors' emoluments)	11,909	8,752

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

7. STAFF COSTS

	2003	2002
Salaries and wages	9,755	7,013
Provision for staff welfare benefits	1,396	1,239
Contribution to retirement benefit schemes	758	500
	11,909	8,752

8. FINANCE COSTS, NET

	2003	2002
Interest expense on bank borrowings	(3,100)	(1,311)
Interest income	830	534
Foreign exchange gain, net	–	(33)
Others	(53)	(294)
	(2,323)	(1,104)

9. TAXATION

(a) Enterprise income taxes (“EIT”)

Taxation in the consolidated income statement comprises:

	2003	2002
Current taxation – EIT	785	2,879
Deferred taxation	–	(32)
	785	2,847

The Company has been approved and classified as a State Key Software Enterprise by the State Tax Bureau on 6 February 2004 and is subject to EIT at a rate of 10% for the year ended 31 December 2003. The Company was subject to EIT at a rate of 15% for the year 2002.

In accordance with the relevant PRC income tax rules and regulations, and approval given by local tax bureau, majority of the Company’s subsidiaries are exempt from EIT and other subsidiaries are taxed at the statutory rate of 33% of their respective assessable income for the year ended 31 December 2003.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

9. TAXATION (continued)

- (b) The reconciliation of the expected theoretical taxation with the actual taxation charged to the consolidated income statement is as follows:

	2003	2002
Profit before taxation	17,187	16,071
Expected taxation at the applicable tax rate of 10% (2002: 15%)	1,719	2,411
Effect of different tax rates of subsidiaries	(733)	(174)
Tax effect of expenses that are not deductible in determining taxable profit	678	610
Tax effect of income that are not taxable in determining taxable profit	(683)	–
Overprovision in previous year	(196)	–
Actual taxation	785	2,847

- (c) As of 31 December 2003, there was no material unprovided deferred taxation for the Group.

10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated net profit attributable to shareholders for the year ended 31 December 2003 included a net profit of approximately RMB4,486,000 (2002: RMB8,801,000) dealt with in the financial statements of the Company before accounting for the results of subsidiaries and associates using the equity method of accounting.

11. DIVIDEND

	Company 2003	2002
Proposed final – RMB0.01 (2002:Nil) per share	3,396	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

12. 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.

	2003	2002
Net profit attributable to shareholders	12,240	11,520
Weighted average number of ordinary shares in issue (<i>thousands</i>)	339,577	304,864
Basic earnings per share (<i>RMB</i>)	0.036	0.038

Pursuant to an extraordinary general meeting held on 15 April 2002, the Company splitted its domestic shares at par value of RMB1 each into domestic shares at par value of RMB0.10 each. The basic earnings per share for the year ended 31 December 2002 is computed based on 227,452,000 shares as if the split of shares had taken place and as if those shares had been issued and outstanding throughout that year.

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

13. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

(a) Directors' and supervisors' emoluments

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

	2003	2002
Fees	20	—
Salaries, allowances and benefits in kind	863	590
Bonuses	—	—
Contribution to retirement benefit schemes	36	89
	919	679



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

13. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

(continued)

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

During the year ended 31 December 2003, the five executive directors received emoluments of approximately RMB286,000 (2002: RMB177,000), RMB250,000 (2002: RMB280,000), RMB200,000 (2002: RMB20,000), RMB40,000 (2002: RMB49,000) and RMB20,000 (2002: RMB20,000) respectively and the three independent non-executive directors received emoluments of approximately RMB20,000 (2002: RMB20,000), RMB10,000 (2002: RMB20,000) and RMB10,000 (2002: RMB10,000) respectively. Five supervisors received emoluments of approximately RMB42,727 (2002: RMB49,000), RMB27,900 (2002: RMB22,000) RMB6,000 (2002: RMB6,000), RMB3,000 (2002: RMB3,000), RMB3,000 (2002: RMB3,000).

No directors or supervisors waived any emoluments for the year ended 31 December 2003.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

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

	2003	2002
RMBNil – RMB1,000,000	13	13

(b) Five highest paid individuals

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

	2003	2002
Fees	20	–
Salaries, allowances and benefits in kind	900	1,100
Bonuses	–	–
Contribution to retirement benefit schemes	72	99
	992	1,199

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For the year ended 31 December 2003

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13. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES (continued)

(b) Five highest paid individuals (continued)

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

	2003	2002
Directors	3	3
Employees	2	2
RMBNil – RMB1,000,000	5	5

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to joining the Group, or as compensation for loss of office.

14. FIXED ASSETS

Group

	2003			Total
	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment	
Cost				
Balance at 1 January 2003	2,398	2,148	4,369	8,915
Additions	300	310	3,916	4,526
Disposals	–	–	(486)	(486)
Balance at 31 December 2003	2,698	2,458	7,799	12,955
Accumulated depreciation				
Balance at 1 January 2003	1,262	310	957	2,529
Charge for the year	869	384	1,209	2,462
Disposals	–	–	(147)	(147)
Balance at 31 December 2003	2,131	694	2,019	4,844
Net book value				
Balance at 1 January 2003	1,136	1,838	3,412	6,386
Balance at 31 December 2003	567	1,764	5,780	8,111

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

14. FIXED ASSETS (continued)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

14. FIXED ASSETS (continued)

Company

	2003			
	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment	Total
Cost				
Balance at 1 January 2003	2,389	1,958	3,119	7,466
Additions	300	180	1,360	1,840
Disposals	–	–	(21)	(21)
Balance at 31 December 2003	2,689	2,138	4,458	9,285
Accumulated depreciation				
Balance at 1 January 2003	1,254	290	730	2,274
Charge for the year	868	321	729	1,918
Disposals	–	–	(2)	(2)
Balance at 31 December 2003	2,122	611	1,457	4,190
Net book value				
Balance at 1 January 2003	1,135	1,668	2,389	5,192
Balance at 31 December 2003	567	1,527	3,001	5,095
	2002			
	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment	Total
Cost				
Balance at 1 January 2002	1,181	1,577	1,096	3,854
Reclassification	–	(255)	255	–
Additions	1,208	880	1,768	3,856
Disposals	–	(244)	–	(244)
Balance at 31 December 2002	2,389	1,958	3,119	7,466
Accumulated depreciation				
Balance at 1 January 2002	551	230	404	1,185
Charge for the year	703	151	326	1,180
Disposals	–	(91)	–	(91)
Balance at 31 December 2002	1,254	290	730	2,274
Net book value				
Balance at 1 January 2002	630	1,347	692	2,669
Balance at 31 December 2002	1,135	1,668	2,389	5,192

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

15. INTANGIBLE ASSETS

Group and Company

	2003		
	Goodwill	Computer software	Total
Cost			
Balance at 1 January 2003	546	7,774	8,320
Additions	–	1,500	1,500
Impairment loss of goodwill	(300)	–	(300)
Balance at 31 December 2003	246	9,274	9,520
Accumulated amortisation			
Balance at 1 January 2003	27	2,389	2,416
Charge for the year	25	2,299	2,324
Balance at 31 December 2003	52	4,688	4,740
Net book value			
Balance at 1 January 2003	519	5,385	5,904
Balance at 31 December 2003	194	4,586	4,780
	2002		
	Goodwill	Computer software	Total
Cost			
Balance at 1 January 2002	–	2,000	2,000
Additions	–	5,774	5,774
Additions from acquisition of a subsidiary	546	–	546
Balance at 31 December 2002	546	7,774	8,320
Accumulated amortisation			
Balance at 1 January 2002	–	336	336
Charge for the year	27	2,053	2,080
Balance at 31 December 2002	27	2,389	2,416
Net book value			
Balance at 1 January 2002	–	1,664	1,664
Balance at 31 December 2002	519	5,385	5,904

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
Unlisted investments, at cost	20,459	14,794
Share of post-acquisition profits	8,405	2,273
Due from subsidiaries	15,859	12,775
Due to a subsidiary	(793)	–
	43,930	29,842

The amounts with subsidiaries were unsecured, interest-free and had no 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.

Details of the Company's subsidiaries, all of which are limited liability companies operated in the PRC, as of 31 December 2003 were as follows:

Name of subsidiaries	Place of establishment	The Company's equity interest		Paid-in capital	Principal activities
		Direct	Indirect		
Chengdu Lande E & I Technology Company Limited ("Chengdu Lande") (Note (a)) 成都蘭德電子信息技術有限公司	PRC	55%	–	RMB1,000,000	Provision of telecommunication solutions and trading of computer hardware and software
Hangzhou Trust Communication Service Company Limited 杭州群思特通信服務有限公司	PRC	55%	–	RMB1,000,000	Provision of telecommunication solutions and trading of computer hardware and software
Zhejiang Lande Xinyi Information Technology Company Limited ("Lande Xinyi") (Note (b)) 浙江蘭德新易信息技術有限公司	PRC	82%	–	RMB5,000,000	Provision of telecommunication solutions and trading of computer hardware and software

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of establishment	The Company's equity interest		Paid-in capital	Principal activities
		Direct	Indirect		
Guangzhou Landi Electronics Information Technology Company Limited 廣州市蘭笛電子信息技術有限公司	PRC	67%	–	RMB1,500,000	Provision of telecommunication solutions and trading of computer hardware and software
Zhejiang Lande Sichuang Information Technology Company Limited (“Lande Sichuang”) 浙江蘭德思創信息技術有限公司	PRC	95%	4.1%	RMB10,000,000	Provision of telecommunication solutions and trading of computer hardware and software
Hefei Lande Tong Ling Technology Limited 合肥蘭德通靈科技有限公司	PRC	75%	–	RMB2,000,000	Provision of telecommunication solutions and trading of computer hardware and software
Zhejiang Lande Congheng Network Service Company Limited 浙江蘭德縱橫網絡技術有限公司	PRC	70%	20%	RMB5,000,000	Provision of telecommunication solutions and trading of computer hardware and software

Note:

- (a) The registered capital of Chengdu Lande was increased from RMB500,000 to RMB1,000,000 on 17 October 2003. The Company's equity interest was increased from RMB275,000 to RMB550,000.
- (b) The registered capital of Lande Xinyi was increased from RMB2,000,000 to RMB5,000,000 on 23 April 2003. The Company's equity interest was increased from RMB1,700,000 to RMB4,100,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

17. INTERESTS IN ASSOCIATES

	Group and Company	
	2003	2002
Unlisted investments, at cost	4,760	360
Share of post-acquisition losses	(664)	(122)
Impairment losses	(238)	(238)
Due from associates	1,091	–
	4,949	–

The amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

Details of the associates at 31 December 2003 were as follows:

Name of associates	Place of establishment	Percentage of equity interest attributable to the Company	Paid-in capital	Principal activities
Guangdong Lande Information and Technology Company Limited 廣東蘭德科技發展有限公司	PRC	40%	RMB5,000,000	Development of computer applications and trading of computer hardware
Shanghai Haigang Communication Technology Company Limited 上海海港通信技術有限公司	PRC	30%	RMB8,000,000	Trading of electronic products, computer hardware and telecommunication network products
Hangzhou Tour Electronic Commerce Company Limited 杭州旅遊電子商務有限公司	PRC	24%	RMB1,500,000	Electronic commercial services related to tourism

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

18. INVENTORIES

	Group		Company	
	2003	2002	2003	2002
Computer software and hardware, at cost	9,538	6,714	1,915	4,088

19. TRADE RECEIVABLES

Ageing analysis of trade receivables was as follows:

	Group		Company	
	2003	2002	2003	2002
Less than one year	50,113	55,817	29,676	49,086
Over one year but less than two years	8,829	7,191	8,811	7,191
Over two years but less than three years	3,214	703	3,214	703
Over three years	4,799	1,309	4,799	1,309
	66,955	65,020	46,500	58,289
Provision for bad and doubtful debts	(6,406)	(3,817)	(6,406)	(3,817)
	60,549	61,203	40,094	54,472

There were no specific credit terms granted to the customers. Provision is made for doubtful debts based on reviews of the status of individual accounts receivable outstanding.

20. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
Prepayments to suppliers	17,839	19,311	13,739	5,223
Due from third parties	21,309	8,758	12,074	8,758
Due from related parties (Note 27(b))	11,500	1,794	4,500	308
Due from minority shareholders (Note 27(b))	609	11,453	609	11,453
Advances to employees	1,507	926	921	926
Others	3,820	4,613	2,694	594
	56,584	46,855	34,537	27,262

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

21. PLEDGED BANK DEPOSITS

The pledged bank deposits were pledged as security for the Group's notes payables facilities.

22. TRADE PAYABLES AND NOTES PAYABLES

Ageing analysis of trade payables and notes payables were as follows:

	Group		Company	
	2003	2002	2003	2002
Less than one year	35,850	24,621	34,193	23,127
Over one year but less than two years	366	–	366	–
	36,216	24,621	34,559	23,127

23. SHORT-TERM BORROWINGS

	Group		Company	
	2003	2002	2003	2002
Guaranteed bank loan	20,000	–	20,000	–
Unsecured bank loans	45,000	10,000	35,000	10,000
	65,000	10,000	55,000	10,000

At 31 December 2003, guaranteed bank loan of RMB20,000,000 (2002: RMBNil) was guaranteed by Tong He Investment Company Limited (通和置業投資有限公司), a subsidiary of a corporate shareholder of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

24. SHARE CAPITAL

At 31 December 2003, the details of the Company's share capital were as follows:

	Number of shares (in thousands)		Amount	
	2003	2002	2003	2002
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.10 each held by promoters (Note (a))	227,452	227,452	22,745	22,745
Overseas public shares ("H" shares) with par value of RMB0.10 each (Note (b))	112,125	112,125	11,213	11,213
	339,577	339,577	33,958	33,958

Movements in the Company's share capital during the year were as follows:

	Number of shares (in thousands)		Amount	
	2003	2002	2003	2002
Balance, at beginning of year	339,577	227,452	33,958	22,745
Issue of H shares	–	112,125	–	11,213
Balance, at end of year	339,577	339,577	33,958	33,958

Note:

- (a) Pursuant to an extraordinary general meeting held on 15 April 2002, the Company splitted 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.
- (b) The Company issued 112,125,000 H shares with a par value of RMB0.10 each on 24 April 2002 at an issue price of RMB0.88 (equivalent to HK\$0.83) per share. The H shares were listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited on 3 May 2002. H shares can only be owned and traded by overseas investors. Dividends on H shares are payable in Hong Kong Dollar.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

25. RESERVES

(a) Statutory surplus reserve

In accordance with the Company Law in the PRC and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve and the statutory public welfare reserve respectively.

When the balance of the statutory surplus reserve reaches 50% of the paid-in capital/share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses, if any, 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.

For the year ended 31 December 2003, the directors of the Company have recommended that 10% (2002: 10%) of the profit for the year based on the management accounts prepared in accordance with PRC accounting regulations be appropriated to statutory surplus reserve.

(b) Statutory public welfare reserve

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% - 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 31 December 2003, the directors of the Company have recommended that 5% (2002: 5%) of the profit for the year based on the management accounts prepared in accordance with PRC accounting regulations be appropriated to this reserve.

The statutory public welfare fund can only be utilised on capital items for the collective benefits of the Company and its subsidiaries employees such as construction of dormitories, canteen and other staff welfare facilities, with the title of these capital items remain with the Company and its subsidiaries. This fund is non-distributable other than in liquidation.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

25. RESERVES (continued)

(c) Retained earnings

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 24 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 of the Company determined in accordance with (i) PRC accounting standards and regulations, and (ii) IFRS.

At 31 December 2003, the Group's profit available for distribution to shareholders after transfers to reserves amounted to approximately RMB28,952,000 (2002: approximately RMB19,775,000). According to the board resolution dated 29 March 2004, final dividend for the year ended 31 December 2003 amounted to RMB3,396,000 was proposed (Note 11).

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of the balance of cash and cash equivalents

	2003	2002
Cash and bank balances	82,912	56,970
Less: Time deposits with maturity of more than 3 months	-	(28,835)
Cash and cash equivalents	82,912	28,135

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS *(continued)*

(b) Acquisition of a subsidiary

The Company acquired 85% equity interest in Lande Xinyi during the year ended 31 December 2002. The fair value of assets and liabilities arising from the acquisition were as follows:

	2003	2002
Fair value of net assets acquired:		
Fixed assets	-	477
Inventories	-	7
Prepayments and other receivables	-	370
Cash and bank balances	-	1,299
Accruals and others payables	-	(443)
Minority interests	-	(256)
	-	1,454
Goodwill	-	546
	-	2,000
Satisfied by:		
Cash consideration	-	2,000
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:		
Total purchase consideration paid	-	(2,000)
Less: Cash and cash equivalents acquired	-	1,299
Net cash outflow	-	(701)



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS *(continued)*

(c) Disposal of a subsidiary

The Company disposed its 55% equity interest in Shanghai Langang Communication Technology Company Limited during the year ended 31 December 2003. The net assets disposed were as follows:

	2003	2002
Net assets disposed:		
Inventories	91	–
Trade receivables	4,168	–
Prepayments and other receivables	1,728	–
Cash and bank balances	27	–
Accruals and other payables	(235)	–
Minority interests	(2,832)	–
	2,947	–
Loss on disposal	(547)	–
	2,400	–
Satisfied by:		
Cash consideration	2,400	–
Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:		
Cash consideration received	2,400	–
Less: Cash and cash equivalents disposed	(27)	–
Net cash inflow	2,373	–

The subsidiary disposed of during the year made no significant contribution to the Group's cash flow, turnover or net profit attributable to shareholders for the year ended 31 December 2003.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

27. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name of related party	Nature of relationship
(i) Hefei Zhengxun Wireless Communication Services Centre (“Hefei Zhengxun”) 合肥政訊無線電通信服務中心	Minority shareholder of a subsidiary of the Company
(ii) Shanghai Haigang Communication Technology Company Limited (“Shanghai Haigang”) 上海海港通信技術有限公司	Minority shareholder of a former subsidiary of the Company, an associate of the Company since 1 September 2003
(iii) Hangzhou Yixun Information Technology Company Limited (“Hangzhou Yixun”) 杭州奕訊信息技術有限公司	A vice president of the Company is the substantial shareholder, director and legal representative of Hangzhou Yixun
(iv) Beijing Keyihui Technology Company Limited (“Beijing Keyihui”) 北京科億匯科技有限公司	A vice president of the Company is the substantial shareholder of Beijing Keyihui
(v) Zhejiang Jinwei Electronic Technology Engineering Limited (“Zhejiang Jinwei”) 浙江金威電子技術工程有限公司	Zhejiang Jinwei is a subsidiary of Zhejiang Qware Investment Company Limited, a shareholder of the Company
(vi) Zhejiang University Qware Science Company Limited (“Qware Science”) 浙江大學快威科技有限公司	Qware Science is a subsidiary of Zhejiang University Innovation Information Holdings Company Limited, a shareholder of the Company
(vii) Tong He Investment Company Limited (“Tong He”) 通和置業投資有限公司	Tong He is a subsidiary of a corporate shareholder of the Company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (continued)

- (b) At 31 December 2003, amounts due from related parties and minority shareholders comprise:

	Group		Company	
	2003	2002	2003	2002
Related parties (Note 20)				
Shanghai Haigang	–	1,366	–	–
Hangzhou Yixun	4,500	–	4,500	–
Beijing Keyihui	2,000	–	–	–
Zhejiang Jinwei	5,000	–	–	–
Others	–	428	–	308
	11,500	1,794	4,500	308
Minority shareholders (Note 20)				
Hefei Zhengxun	9	11,453	9	11,453
Minority shareholders of Lande Xinyi	600	–	600	–
	609	11,453	609	11,453

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (continued)

(c) Advances to related parties and minority shareholders during the year are as follows:

	Group		Company	
	2003	2002	2003	2002
Related parties				
Shanghai Haigang	–	1,000	–	–
Hangzhou Yixun	4,500	–	4,500	–
Beijing Keyihui	2,000	–	–	–
Zhejiang Jinwei	5,000	–	–	–
Qware Science	20,000	3,091	20,000	3,091
	31,500	4,091	24,500	3,091
Minority shareholders				
Minority shareholders of Lande Xinyi	600	–	600	–
	600	–	600	–

(d) Sales to a related party during the year

	Group		Company	
	2003	2002	2003	2002
Sales of self-developed software to Hefei Zhengxun	–	12,512	–	12,512

(e) Guarantee given by a related party

	Group		Company	
	2003	2002	2003	2002
Corporate guarantee given by Tong He in respect of a bank loan granted to the Group (Note 23)	20,000	–	20,000	–



Notes to the Consolidated Financial Statements

For the year ended 31 December 2003

(All amounts in RMB thousands unless otherwise stated)

28. OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases at 31 December 2003 for office premises of the Group are as follows:

	Group	
	2003	2002
Within one year	297	776
Two to five years	62	1,342
	359	2,118

29. CONTINGENT LIABILITIES

At 31 December 2003, the Company provided corporate guarantee of RMB10,000,000 on a bank loan granted to its subsidiary, Lande Sichuang.

30. COMPARATIVE FIGURES

The comparative figures were audited by another firm of certified public accountants in Hong Kong. Certain figures have been reclassified to conform to current year's presentation.

Financial Summary

Results

	Year ended 31 December				
	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Turnover	164,551	95,458	63,890	23,151	4,621
Cost of sales	(117,464)	(61,540)	(36,274)	(17,047)	(2,469)
Gross profit	47,087	33,918	27,616	6,104	2,152
Other operating income	4,427	2,673	–	–	–
Distribution costs	(12,290)	(5,858)	(2,842)	(1,671)	(1,207)
Administrative expenses	(18,095)	(13,462)	(6,766)	(2,274)	(2,509)
Other operating expenses	(1,077)	(96)	(15)	(10)	(3)
Profit (loss) from operations	20,052	17,175	17,993	2,149	(1,567)
Finance (costs) income, net	(2,323)	(1,104)	(198)	9	7
Share of losses of associates	(542)	–	(307)	(53)	–
Profit (loss) before taxation	17,187	16,071	17,488	2,105	(1,560)
Taxation	(785)	(2,847)	(2,987)	(326)	189
Profit (loss) before minority interests	16,402	13,224	14,501	1,779	(1,371)
Minority interests	(4,162)	(1,704)	338	24	–
Net profit (loss) for the year	12,240	11,520	14,839	1,803	(1,371)
Earnings (loss) per share – Basic	RMB0.036	RMB0.038	RMB0.065	RMB0.008	RMB(0.006)



Financial Summary

Assets and Liabilities

	As at 31 December				
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Total assets	261,690	193,839	69,311	25,270	15,979
Total liabilities	(112,338)	(59,292)	(33,093)	(21,442)	(14,155)
Minority interests	(6,723)	(4,158)	(550)	(201)	–
Shareholders' funds	142,629	130,389	35,668	3,627	1,824

Note:

The results of the Group for each of the three years ended 31 December 2001 and the assets and liabilities of the Group as at 31 December 1999, 2000 and 2001 were prepared based on the accountant's report contained in the Company's prospectus dated 24 April 2002. Certain comparative figures have been reclassified to conform to current year's presentation.