



ZDL
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)

04

**INTERIM
REPORT**

** for identification purpose only*

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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



HIGHLIGHTS

- Achieved a turnover of approximately RMB55,393,000 for the six months ended 30th June, 2004, representing an approximately 18.3% increase as compared with the turnover for the corresponding period in 2003.
- Accomplished a net profit of approximately RMB6,343,000 for the six months ended 30th June, 2004, representing an approximately 2.1% increase as compared with the net profit for the corresponding period in 2003.
- The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2004.

The board of directors (the “Board”) of Zheda Lande Scitech Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004.

2004 INTERIM RESULTS

For the six months ended 30th June, 2004, the Group recorded an unaudited turnover of approximately RMB55,393,000 (same period in 2003: RMB46,825,000), representing a growth of approximately RMB8,568,000, or approximately 18.3%, as compared with the turnover of the same period in 2003.

For the six months ended 30th June, 2004, the Group recorded an unaudited net profit of approximately RMB6,343,000 (same period in 2003: RMB6,212,000), representing a growth of approximately RMB131,000, or approximately 2.1%, as compared with the operating results of the same period in 2003.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (for the six months ended 30th June 2003: Nil).

CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements of the Group for the six months ended 30th June, 2004 together with the unaudited figures for the corresponding period in 2003 are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months and three months ended 30th June, 2004

	Notes	(unaudited) Six months ended 30th June,		(unaudited) Three months ended 30th June,	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	3	55,393	46,825	27,295	24,725
Cost of sales	3	(34,478)	(30,854)	(16,440)	(14,964)
Gross profit		20,915	15,971	10,855	9,761
Value-added tax refunds		620	4,238	620	1,485
Distribution costs		(3,986)	(4,268)	(2,278)	(2,583)
Administrative expenses		(8,345)	(8,538)	(4,385)	(4,659)
Other operating (expenses) income		(220)	69	(145)	(1)
Profit from operations	4	8,984	7,472	4,667	4,003
Finance costs, net		(1,791)	(618)	(989)	(485)
Share of profits of associates		191	–	202	–
Profit before taxation		7,384	6,854	3,880	3,518
Taxation	5	(1,363)	(717)	(837)	(109)
Profit before minority interests		6,021	6,137	3,043	3,409
Minority interests		322	75	344	72
Net profit		6,343	6,212	3,387	3,481
Earnings per share – basic	8	RMB0.019	RMB0.018	RMB0.010	RMB0.010



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2004

		(unaudited) 30th June, 2004 RMB'000	(audited) 31st December, 2003 RMB'000
Non-current assets			
Fixed assets		7,201	8,111
Intangible assets		3,358	4,780
Interests in associates		5,039	4,949
Other assets		2,637	418
		18,235	18,258
Current assets			
Inventories		10,513	9,538
Contract work in progress		33,518	22,230
Trade receivables	9	70,168	60,549
Prepayments and other receivables	10	93,094	56,584
Tax prepaid		4,556	-
Pledged bank deposits	11	6,488	11,619
Cash on hand and bank deposits		45,240	82,912
		263,577	243,432
Current liabilities			
Trade payables and notes payable	12	28,167	36,216
Receipts in advance from customers		6,443	8,507
Accruals and other payables		3,829	1,752
Provision for taxation		-	863
Short-term bank borrowings, unsecured		88,000	65,000
Dividend payables		3,396	-
		129,835	112,338
Net current assets		133,742	131,094
Total assets less current liabilities		151,977	149,352
Minority interests		(6,401)	(6,723)
Net assets		145,576	142,629
Capital and reserves			
Share capital		33,958	33,958
Reserves		111,618	108,671
Owners' equity		145,576	142,629



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	(unaudited)	
	Six months ended	
	30th June,	
	2004	2003
	RMB'000	RMB'000
Net cash (used in) from operating activities	(75,464)	1,320
Net cash from (used in) investing activities	4,792	(2,180)
Net cash from financing activities	33,000	6,500
Net increase in cash and cash equivalents	(37,672)	5,640
Cash and cash equivalents, beginning of period	82,912	62,497
Cash and cash equivalents, end of period	45,240	68,137



CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month ended 30th June, 2004

	(unaudited)						
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Retained earnings	Proposed final dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of 1st January, 2003	33,958	71,988	2,677	1,991	19,775	-	130,389
Net profit	-	-	-	-	2,731	-	2,731
Balance as of 31st March, 2003	33,958	71,988	2,677	1,991	22,506	-	133,120
Net profit	-	-	-	-	3,481	-	3,481
Balance as of 30 June, 2003	<u>33,958</u>	<u>71,988</u>	<u>2,677</u>	<u>1,991</u>	<u>25,987</u>	<u>-</u>	<u>136,601</u>
Balance as of 1st January, 2004	33,958	71,988	4,719	3,012	25,556	3,396	142,629
Net profit	-	-	-	-	2,956	-	2,956
Balance as of 31st March, 2004	33,958	71,988	4,719	3,012	28,512	3,396	145,585
Net profit	-	-	-	-	3,387	-	3,387
Final dividend declared	-	-	-	-	-	(3,396)	(3,396)
Balance as of 30 June, 2004	<u>33,958</u>	<u>71,988</u>	<u>4,719</u>	<u>3,012</u>	<u>31,899</u>	<u>-</u>	<u>145,576</u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2004

1. BASIS OF PRESENTATION

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 20th September, 2001 and its H shares were listed on the GEM on 3rd May, 2002, details of which are set out in the prospectus of the Company dated 24th April, 2002 (the "Prospectus").

The condensed financial statements have been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting" published by the International Accounting Standards Board and the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December, 2003.

3. TURNOVER AND COST OF SALES

Segment information

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

(i) *Primary reporting segment – business segments*

The Group comprises the following main business segments:

- Provision of telecommunication solutions
- Trading of hardware and computer software
- Other related service which represents the provision of telecommunication value-added services.



(unaudited)								
	Provision of telecommunications solutions		Trading of hardware and computer software		Other related service		Consolidated	
			For the six months ended 30th June,					
	2004	2003	2004	2003	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment turnover	32,529	37,747	15,873	9,078	6,991	–	55,393	46,825
Segment results	14,030	15,063	1,352	908	5,533	–	20,915	15,971
Unallocated revenue							620	4,307
Unallocated expenses							(12,551)	(12,806)
Profit from operations							8,984	7,472
Finance costs, net							(1,791)	(618)
Share of profits of associates							191	–
Profit before taxation							7,384	6,854
Taxation							(1,363)	(717)
Minority interests							322	75
Net profit							6,343	6,212
Other segment information:								
Capital expenditure	892	1,232	400	1,428	246	278	1,538	2,938
Provision for bad and doubtful debts	570	612	296	645	152	–	1,018	1,257
Depreciation	140	31	71	118	42	12	253	161
Amortisation	1,582	1,133	–	–	–	–	1,582	1,133
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
	As at	As at 31st	As at	As at 31st	As at	As at 31st	As at	As at 31st
	30th June,	December,	30th June,	December,	30th June,	December,	30th June,	December,
	2004	2003	2004	2003	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets	161,193	102,984	77,910	146,607	29,552	5,930	268,655	255,521
Interests in associates							5,039	4,949
Unallocated assets							8,118	1,220
Total assets							281,812	261,690
Segment liabilities	11,300	6,204	5,255	8,801	2,255	894	18,810	15,899
Unallocated liabilities							111,025	96,439
Total liabilities							129,835	112,338

(ii) *Secondary reporting segment – geographical segment*

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

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	(unaudited) Six months ended 30th June,		(unaudited) Three months ended 30th June,	
	2004 RMB'000	2003 <i>RMB'000</i>	2004 RMB'000	2003 <i>RMB'000</i>
Depreciation and amortisation	1,835	1,294	922	585
Interest expenses	1,720	1,040	769	734

5. TAXATION

	(unaudited) Six months ended 30th June,		(unaudited) Three months ended 30th June,	
	2004 RMB'000	2003 <i>RMB'000</i>	2004 RMB'000	2003 <i>RMB'000</i>
The charges comprises: PRC income tax	1,363	717	837	109

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

The subsidiaries of the Company are subject to EIT at rates ranging from 0-33% in accordance with respective local tax laws and regulations.

The Group conducts its business in the PRC and therefore is not subject to Hong Kong profits tax.

6. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (for the six months ended 30th June 2003: Nil).

7. RESERVES

Other than those disclosed in the condensed statement of changes in owners' equity, there were no movements in reserves of the Group for the relevant periods in 2004 and 2003.



8. EARNINGS PER SHARE

Earnings per share have been computed by dividing net profit for the six months and three months ended 30th June, 2004 of approximately RMB6,343,000 and approximately RMB3,387,000 (same periods in 2003: approximately RMB6,212,000 and approximately RMB3,481,000) by 339,577,000 shares (same period in 2003: 339,577,000 shares) in issue.

No diluted earnings per share were presented for the six months and three months ended 30th June, 2004 and 2003 as there was no potential dilutive securities in existence during the relevant periods.

9. TRADE RECEIVABLE

No special credit term is granted to the customers by the Group.

Aging of trade receivable is as follows:

	(unaudited) 30th June, 2004 RMB'000	(audited) 31st December, 2003 RMB'000
Aging:		
Not exceeding one year	64,526	50,113
More than one year but not exceeding two years	4,258	8,829
More than two years but not exceeding three years	2,770	3,214
More than three years	4,799	4,799
	<hr/>	<hr/>
	76,353	66,955
Provision for bad debts	(6,185)	(6,406)
	<hr/>	<hr/>
	70,168	60,549
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10. PREPAYMENTS AND OTHER RECEIVABLES

Included in prepayments and other receivables as at 30th June, 2004 are amounts due from related parties and minority shareholders of subsidiaries, details of which are set out as follows:

	(unaudited) 30th June, 2004 RMB'000	(audited) 31st December, 2003 RMB'000
Hangzhou Yixun Information Technology Company Limited (<i>note 1</i>)	–	4,500
Beijing Keyihui Technology Company Limited (<i>note 2</i>)	–	2,000
Zhejiang Jinwei Electronic Technology Engineering Limited (<i>note 3</i>)	–	5,000
Hefei Zhengxun Wireless Communication Service Centre (<i>note 4</i>)	9	9
Minority shareholders of Zhejiang Lande Xinyi Information Technology Company Limited	600	600
	<u>609</u>	<u>12,109</u>

The amounts due from related parties and minority shareholders of subsidiaries are unsecured, non-interest bearing and without fixed repayment terms.

Note 1: The Company's vice president is the major shareholder, director, and legal representative of Hangzhou Yixun Information Technology Company Limited.

Note 2: The Company's vice president is the major shareholder of Beijing Keyihui Technology Company Limited.

Note 3: Zhejiang Jinwei Electronic Technology Engineering Limited is a subsidiary of Zhejinag Qware Investment Company Limited, a shareholder of the Company.

Note 4: Hefei Zhengxun Wireless Communication Service Centre is a minority shareholder of a subsidiary of the Company.

11. PLEDGED BANK DEPOSITS

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



12. TRADE PAYABLES AND NOTES PAYABLE

Aging of trade payables and notes payable are as follows:

	(unaudited) 30th June, 2004 RMB'000	(audited) 31st December, 2003 RMB'000
Aging:		
Not exceeding one year	27,915	35,850
More than one year but not exceeding two years	252	366
	28,167	36,216

13. CONTINGENT LIABILITIES

As at 30th June, 2004, the Group has no material contingent liabilities (31st December, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

1. Review of operating results for the period

For the six months ended 30th June, 2004, the unaudited turnover was approximately RMB55,393,000, representing a growth of approximately RMB8,568,000, or approximately 18.3% increase in turnover as compared with that of the same period in 2003. For the three months ended 30th June, 2004, the unaudited turnover was approximately RMB27,295,000, representing a growth of approximately RMB2,570,000, or approximately 10.4% increase in turnover as compared with that of the same period in 2003.

The unaudited net profit of the Group for the six months and three months ended 30th June, 2004 is approximately RMB6,343,000 and RMB3,387,000 respectively.

2. Product development

- During the report period, the Group had further intensified the research and development of products related to the telecommunication industry. As regards Office Automation System, while continuously having the largest market share of the communication operation market, the Group had consolidated the development of Office Automation System base on Java platform. At the same time, the product department had actively co-operated with China Unicom to speed up the promotion of the Group's products within the China Unicom.



- During the report period, the Group had basically completed the product development of the “Telescope” product series, which stemmed from the telecom industry operation support platform. This completed series includes, namely, Telescope integrated customer service system, Telescope customer management system, Telescope SLA management system, Telescope operation analysis system, Telescope integrated sales management system, Telescope production scheduling system and Telescope resources allocation management system. The product series have been put in on-line application in four provinces of Northern Telecom, and have passed the first inspection.
- During the report period, the Group took further effort in developing telecom industry value-added business. The Group’s Lande Research Academy had co-operated with Korean games partner to jointly develop mobile phone games. A good part of it has been launched by major SP into the China market. Thus far, the joint effort was admired considerably with remarkable prospects. At the same time, Lande Research Academy managed to make use of its technological know-how in digital voice and invested manpower in developing the voice communication service technology platform. This is treated as a preparatory work in advance for the Group taking the plunge entering the field of voice communication service.
- As regards communication terminal device product aspect, Zhejiang Lande Congheng Network Services Company Limited, a subsidiary of the Company, while fine tuning its wireless fixed line phone set, tried another hand in respective research and development areas relevant to GPS positioning communication terminals and “family-school link” terminal products, the latter project being involved in the link up of information between student’s families and schools. A critical mass is anticipated in this discernible market.

3. Marketing and business development

- During the first half of 2004, the Group had signed up contracts concerning 5 provinces in the northern China with China Telecom regarding reporting schedules systems. The Group also won the contracts from China Union’s branch companies, namely, Chongqing branch, Tianjin branch, Zhejiang branch, regarding the enterprise’s information management system. Other projects embrace system integration work for the National Weather Satellite Observatory Centre; e-government system of Zhejiang Cangnan Municipal Government, e-government system for the Water Bureau of Guangdong Province, and Gui Zhou wireless and mobile public phone project in Gui Zhou, etc.
- During the report period, the Group had further solidified and smoothed its distribution channel and explored new business across the five major regions: the southern region, the eastern region, the northern region, the central region and the south-western region. Promptly, the Group’s headquarter provides not only technical support but also high-end resources to the five major regions.



4. Strategic investment and business collaborations of the Group

- During the report period, the Group continues to maintain co-operation in harmony with IBM and Hua Wei Company. Besides, the Group had entered into a co-operation agreement with China Satellite Communication Company, both parties aiming at exploring projects under the scope of satellite positioning technology. But then, the Group also co-operates with a Korean game producer in the development of mobile phone games. These two novel ventures mark a breakthrough to the Group in the area of value-added operations, as well indicating a profound effect contributing to the Group's business development.

5. Employees information

- As at 30th June, 2004, the Group has a total of 388 (as at 30th June, 2003: 348). In accordance with the Company's strategic plan, the Group kept on strengthening both edges in product development and market promotion in the first half year of 2004. With respect to making a distinguishing internal staff structure component, the Company absorbed and brought in experienced technical and marketing professionals. But then, adjustments on management and administrative positions were also taken to suit better with the Company's current demands.
- The Group continues to provide training opportunities to its staff so as to improve the technical and managerial knowledge of the staff.
- The Group has not issued any share options nor has any bonus plan.
- The total staff costs incurred by the Group during the report period amounted to approximately RMB4,100,000 (same period in 2003: RMB3,822,000).

FINANCIAL REVIEW

- The Group has maintained sound financial conditions. For the six months ended 30th June, 2004, the Group was mainly financed by funds generated from operations, bank loans and the proceeds from issue and listing of new shares on GEM.
- As at 30th June, 2004, the Group's cash and bank balances amounted to approximately RMB51,728,000 (as at 31st December, 2003: RMB94,531,000).
- As at 30th June, 2004, the Group had outstanding short term bank borrowings amounted to RMB88,000,000 (as at 31st December, 2003: RMB65,000,000).
- As at 30th June, 2004, the Group had a total asset value of approximately RMB281,812,000 (as at 31st December, 2003: RMB261,691,000).



- As at 30th June, 2004, the Group had current liabilities of approximately RMB129,835,000 (as at 31st December, 2003: RMB112,338,000).
- As at 30th June, 2004, the Group had shareholders' equity of approximately RMB145,576,000 (as at 31st December, 2003: RMB142,629,000).
- As at 30th June, 2004, the Group had minority interests of approximately RMB6,401,000 (as at 31st December, 2003: RMB6,723,000).
- As at 30th June, 2004, the Group had a gearing ratio (the ratio of liabilities to total assets) of approximately 46.1% as at (31st December, 2003: 42.9%).
- As at 30th June, 2004, the Group had a net current asset ratio (the ratio of current liabilities to current assets) of approximately 49.3% (as at 31st December, 2003: 46.2%).
- As at 30th June, 2004, bank deposits amounting to approximately RMB6,488,000 (as at 31st December, 2003: RMB11,619,000) was pledged to secure general banking facilities of the Group.
- Since substantially all of the Group's revenue is in Reminbi and its expenses are paid in Reminbi, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk.
- As at 30th June, 2004, the Group had no material contingent liabilities (as at 31st December, 2003: Nil).

FUTURE PROSPECTS

1. Orders in hand

The Group has orders in hand amounting to approximately RMB45,000,000.

2. Prospects of new business and new products.

- GPS satellite positioning value-added service: The use of GPS or mobile station position information and sending value-added message content via short message platform can be widely applied in areas such as traffic, shipping transport, city life and personal service. Presently, the Group has had partnerships with counterparts such as China Satellite Communication, China Mobiles, China Unicom, etc. to provide operation service for shipping and transportation system in Zhejiang in-land rivers and in personal account leisure, providing entertainment and shopping information to individual subscribers of Hangzhou Mobile and Hangzhou Unicom.




- Internet content provider service: The Group utilizes resources in collaboration with other operations counterparts, having attracted the major outstanding internet SP all over China to join to the internet content service provider platform, which is constructed by our Group. Through the exhilarating service content given by the platform and sufficient kinds of payment method which are always convenient, more and more internet consumers are attracted to visit the platform. The development stage of platform is finished, and is in the pipeline to validity test at the present moment. It is estimated that on-line service will commence by September this year, followed by further enrichment of customer base up to 100,000 accounts by year end.
- Mobile phone games: The Group co-operates with Korean games producer to develop mobile phone small games which are favorites for mobile phone game mass customers. Games can be downloaded from any SP web sites at charge basis. The project is now on its trial run stage at small lot size and the result is creditable. Now that the demand for games by SP is huge and income is promising.
- Hua Wei product value-added service: The System Integration Division of the Group is a software and hardware system integrator supplier with technological versatility. Especially, it is a value-added service provider of Hua Wei networking products. The number of its Hua Wei certified engineers stands at the front edge when compared to that of other Hua Wei value-added service providers. The service order received from Hua Wei each year amounts to several millions dollars and the order trend keeps rising drastically. It is expected the concerning business will hereafter contribute to the Group with a stable and reliable income stream.
- Communication terminal device products: This product spectrum takes pride in quantity size and product diversification. Products that have been developed successfully by the Group include diverse kinds of wireless fixed line phone sets, GPS position terminals and “family-school link” terminal products, all of which will bring affluent income to the Group in years to come.
- The Group intends to invest in the aspect of value-added service. The Group will also seek for suitable acquisition targets to consolidate the existing effective resources in the market in order to diversify the income stream of the Group.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary comparison of the actual business progress for the period from 1st January, 2004 to 30th June, 2004:

	Business objectives as set out in the Prospectus	Actual business progress
Product enhancement and development		
<i>Data communication solutions</i>		
	Upgrade the wireless communication system to version 3.05 to support greater coverage	Completed. Wireless communication value- added business has been put into application.
	Implement 3G capability in data switch platform	Research and development work in progress.
	Research on wireless Internet capability	Completed and has been put in use.
	Research on an united data communication system	Has attained satisfactory results in the research and development work.
	Research on wireless broadband capability	Completed.
	Develop and launch the video conferencing enabling system	The development has been postponed due to market changes.
<i>Telecom operation supports solutions</i>		
	Enhance the quality of the telecom OA system	Have introduced the flow process combination system and the unification information platform system, which will facilitate customers to recognize new trend and needs.



Enhance the functionality of the broadband Internet CRM system

Research and development work is focused on the new version of CRM system, which is based on the wireless broadband functionality.

Enhance the integrated online telecom management system

Have extended the current integrated sales operation system.

Sales and marketing

Data communication solutions

Create brand awareness by advertising in telecommunication magazines and through other multi media

Propaganda was made in form of internal publications, promotion information and press conference with a view to introducing new products and technology.

Jointly organize trade show with telecommunication operators

Have enrolled in high end technology exhibition in China and demonstrated both product and technology to customers and the public.

Establish joint-sales efforts with multinational data switch platform providers

Interact with renowned Chinese and foreign counterparts in terms of technical knowledge on one hand and contemplating partnerships for market exploration on the other.

Telecom operation supports solutions

Create brand awareness by advertising in awareness in telecommunication magazines and through other multi media

Propaganda was made in form of internal publications, promotion information and press conference with a view to introducing new products and technology.

Jointly organize trade show with telecommunication operators

Have enrolled in high end technology exhibition in China and demonstrated both product and technology to customers and the public.



Expand distribution network through the opening of provincial sales offices and hiring of professional sales staff

To excel in market distribution strategy and got equipped with product-compatible professional sales framework. Adopted specific distribution strategy by mingling professional product with geographical factors.

Strategic investments and business collaborations

Data communication solutions

Invest in or acquire a wireless terminal device supplier

Has launched wireless public phone products to the market and achieved a substantial market share.

Invest in a virtual telecommunications operator

The Company enlarged the scope of research and development in value-added business and plans to either invest in or acquire a broadband value-added system supplier.

Telecom operation supports solutions

Seek opportunity in business collaboration with reputable global firm to enhance the Group's image

The Company has established a sophisticated and stable relationship in cooperation with IBM. Also the Company managed to be value-added dealers of Hua Wei and 3COM.



Employment of human resources

Number of employees

Management	30	29
Research and product development	250	259
Sales and marketing	65	66
Administration and finance	35	34
	<u>380</u>	<u>388</u>

Use of proceeds

	<i>HK\$'000</i>	<i>HK\$'000</i>
Product enhancement and development	5,800	5,600
Sales and marketing	2,600	2,700
Strategic investments and business collaboration	3,000	–
General working capital	1,000	1,000
	<u>12,400</u>	<u>9,300</u>

ADDITIONAL INFORMATION REQUIRED BY THE GEM LISTING RULES

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 30th June, 2004, 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 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%
Chen Chun	Personal	Beneficial owner	4,094,130	1.21%

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme. A summary of the principal terms and conditions of the share option scheme are set out in the section headed "Summary of the Terms of the Share Option Scheme" in the Prospectus. Up to 30th June, 2004 no option has been granted pursuant to such share option scheme.

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 30th June, 2004, 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:

Long position in shares

Shareholder	Capacity	Number of domestic shares held	Percentage of beneficial interests in the Company's share capital
Zhejiang Qware Information Technology Investment & Consulting Company Limited	Beneficial owner	34,117,800	10.05%
Beijing Guoheng High Technology Holding Co., Ltd	Beneficial owner	34,117,800	10.05%
Zhejiang University Innovation Information Holdings Company Limited	Beneficial owner	34,117,800	10.05%
Shi Chu Hua	Beneficial owner	16,490,280	4.86%
Wu Zhong Hao	Beneficial owner	16,490,280	4.86%



COMPETING INTERESTS

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

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 30th June, 2004.

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

AUDIT COMMITTEE

The Company established an audit committee in November, 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. 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 condensed interim financial statements for the six months ended 30th June, 2004 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

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 six months ended 30th June, 2004.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30th June, 2004, the Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

On behalf of the Board

Chen Ping

Chairman

6th August, 2004, Hangzhou, the PRC