

INTERIM REPORT 2005



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)



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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the 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.

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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 RMB55,678,000 for the six months ended 30th June, 2005, representing an approximately 0.5% increase as compared with the turnover for the corresponding period in 2004
- Accomplished a net profit of approximately RMB4,308,000 for the six months ended 30th June, 2005, representing an approximately 32.1% decrease as compared with the net profit for the corresponding period in 2004
- The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2005

The Board of Directors (the "Board") of Zheda Lande Scitech Limited (the "Company") is pleased to present the interim report of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2005.

2005 INTERIM RESULTS

For the six months ended 30th June, 2005, the Group recorded an unaudited turnover of approximately RMB55,678,000 (2004: RMB55,393,000), representing a growth of approximately RMB285,000, or approximately 0.5%, as compared with the turnover of the same period in 2004.

For the six months ended 30th June, 2005, the Group recorded an unaudited net profit of approximately RMB4,308,000 (2004: RMB6,343,000), representing a decrease of approximately RMB2,035,000, or approximately 32.1%, as compared with the operating results of the same period in 2004.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2005 (2004: Nil).

CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements of the Group for the six months ended 30th June, 2005 together with the unaudited figures for the corresponding period in 2004 are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months and three months ended 30th June, 2005

	Notes	(unaudited) Six months ended 30th June		(unaudited) Three months ended 30th June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	3	55,678	55,393	34,951	27,295
Cost of sales	3	(36,207)	(34,478)	(26,868)	(16,440)
Gross profit		19,471	20,915	8,083	10,855
Value-added tax refunds		3,785	620	3,785	620
Distribution costs		(5,270)	(3,986)	(2,699)	(2,278)
Administrative expenses		(11,024)	(8,345)	(5,387)	(4,385)
Other operating income/(expenses)		350	(220)	242	(145)
Profit from operations	4	7,312	8,984	4,024	4,667
Finance costs, net		(2,333)	(1,791)	(1,317)	(989)
Share of (losses)/profits of associates		(160)	191	(17)	202
Profit before taxation		4,819	7,384	2,690	3,880
Taxation	5	(693)	(1,363)	(118)	(837)
Profit before minority interests		4,126	6,021	2,572	3,043
Minority interests		182	322	(266)	344
Net profit		4,308	6,343	2,306	3,387
Earnings per share – basic	8	RMB0.013	RMB0.019	RMB0.007	RMB0.010



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2005

		(unaudited) 30th June, 2005 <i>RMB'000</i>	(audited) 31st December, 2004 <i>RMB' 000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		8,443	7,606
Intangible assets		10,560	11,895
Interests in associates		7,667	7,827
Long-term prepayments		2,705	396
		<u>29,375</u>	<u>27,724</u>
Current assets			
Inventories		33,571	10,062
Contract work in progress		16,854	14,743
Trade receivables	9	71,049	103,340
Prepayments and other receivables	10	101,575	90,617
Pledged bank deposits	11	4,278	11,020
Bank balances and cash		32,711	39,804
		<u>260,038</u>	<u>269,586</u>
Current liabilities			
Trade payables and notes payable	12	41,340	44,672
Receipt in advance from customers		25,241	10,060
Accruals and other payables		8,570	13,536
Taxation		2,839	3,245
Short-term borrowings		48,000	66,500
		<u>125,990</u>	<u>138,013</u>
Net current assets		<u>134,048</u>	<u>131,573</u>
Total assets less current liabilities		163,423	159,297
Minority interests		(9,586)	(9,768)
Net assets		<u>153,837</u>	<u>149,529</u>
Capital and reserves			
Share capital		33,958	33,958
Reserves		119,879	115,571
Shareholders' equity		<u>153,837</u>	<u>149,529</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

	(unaudited) Six months ended 30th June, 2005 RMB'000	(unaudited) Six months ended 30th June, 2004 RMB'000
Net cash inflow/(outflow) from operating activities	9,761	(75,464)
Net cash inflow from investing activities	6,646	4,792
Net cash (outflow)/inflow from financing activities	<u>(23,500)</u>	<u>33,000</u>
Net decrease in cash and cash equivalents	(7,093)	(37,672)
Cash and cash equivalents at beginning of period	<u>39,804</u>	<u>82,912</u>
Cash and cash equivalents at end of period	<u><u>32,711</u></u>	<u><u>45,240</u></u>



CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month ended 30th June, 2005

	(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, 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>
Balance as of 1st January, 2005	33,958	71,988	6,009	3,657	33,917	—	149,529
Net profit	—	—	—	—	2,002	—	2,002
Balance as of 31st March, 2005	33,958	71,988	6,009	3,657	35,919	—	151,531
Net profit	—	—	—	—	2,306	—	2,306
Balance as of 30 June, 2005	<u>33,958</u>	<u>71,988</u>	<u>6,009</u>	<u>3,657</u>	<u>38,225</u>	<u>—</u>	<u>153,837</u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

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, 2004.

3. TURNOVER AND COST OF SALES

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 includes the provision of telecommunication value-added services.



	(unaudited)							
	Provision of telecommunications solutions		Trading of hardware and computer software		Other related services		Consolidated	
	For the six months ended 30th June							
	2005	2004	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment turnover	35,592	32,529	9,942	15,873	10,144	6,991	55,678	55,393
Segment results	11,598	14,030	747	1,352	7,126	5,533	19,471	20,915
Unallocated revenue							4,135	620
Unallocated expenses							(16,294)	(12,551)
Profits from operations							7,312	8,984
Finance costs, net							(2,333)	(1,791)
Share of (losses)/profits of associates							(160)	191
Profit before taxation							4,819	7,384
Taxation							(693)	(1,363)
Minority interests							182	322
Net profit							4,308	6,343
Other segment information:								
Capital expenditure	1,139	892	442	400	744	246	2,325	1,538
Provision for bad and doubtful debts	529	570	386	296	187	152	1,102	1,018
Depreciation	468	140	182	71	305	42	955	253
Amortisation	1,002	1,582	390	–	654	–	2,046	1,582
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
	As at	As at	As at	As at	As at	As at	As at	As at
	30th June,	31st December,	30th June,	31st December,	30th June,	31st December,	30th June,	31st December,
	2005	2004	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	73,860	76,709	61,070	86,570	39,690	6,548	174,620	169,827
Interests in associates							5,169	5,329
Unallocated assets							109,784	122,154
Total assets							289,573	297,310
Segment liabilities	22,690	18,498	18,795	33,032	12,156	3,203	53,641	54,733
Unallocated liabilities							72,349	83,280
Total liabilities							125,990	138,013

(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,	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	3,001	1,835	1,505	922
Interest expenses	2,270	1,720	1,017	769

5. TAXATION

	(unaudited) Six months ended 30th June,		(unaudited) Three months ended 30th June,	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
The charges comprises:				
PRC income tax	693	1,363	118	837

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, 2005 (2004: Nil).

7. RESERVE

Other than those disclosed in the condensed statement of changes in shareholders' equity, there were no movements in reserves of the Group for the relevant periods in 2005 and 2004.



8. EARNINGS PER SHARE

Earnings per share have been computed by dividing net profit for the six months and three months ended 30th June, 2005 of approximately RMB4,308,000 and approximately RMB2,306,000 (2004: approximately RMB6,343,000 and approximately RMB3,387,000) by 339,577,000 shares (2004: 339,577,000 shares) in issue.

No diluted earnings per share were presented for the six months and three months ended 30th June, 2005 and 2004 as there was no potential dilutive securities in existence during the relevant periods.

9. TRADE RECEIVABLES

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

Aging of trade receivables is as follows:

	(unaudited) 30th June, 2005 RMB'000	(audited) 31st December, 2004 RMB'000
Aging:		
– not exceeding one year	69,399	88,045
– more than one year but not exceeding two years	3,299	13,467
– more than two years but not exceeding three years	3,770	2,376
– more than three years	2,089	5,858
	<hr/>	<hr/>
	78,557	109,746
Provision for bad debts	(7,508)	(6,406)
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	71,049	103,340
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10. PREPAYMENTS AND OTHER RECEIVABLES

Included in prepayments and other receivables as at 30th June, 2005 are amounts due from related parties and minority shareholders of subsidiaries, details of which are set out as follows:

	(unaudited) 30th June, 2005 RMB'000	(audited) 31st December, 2004 RMB'000
Hangzhou Yixun Information Technology Company Limited (Note 1)	59	59
Zhejiang University Qware Science Company Limited (Note 2)	16,800	10,270
Minority shareholders of Zhejiang Sichuang Information Technology Company Limited	3,000	3,000
Minority shareholders of Huangzhou Trust Communication Service Company Limited	704	31
Minority shareholders of Zhejiang Lande Xinyi Information Technology Company Limited	350	348
	20,913	13,708

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: Zhejiang University Qware Science Company Limited is a subsidiary of Zhejiang University Innovation Information Holdings Company Limited, a shareholder 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, 2005 RMB'000	(audited) 31st December, 2004 RMB'000
Aging:		
– not exceeding one year	41,036	44,282
– more than one year but not exceeding two years	304	390
	41,340	44,672

13. CONTINGENT LIABILITIES

As at 30th June, 2005, the Group has no material contingent liabilities (31st December, 2004: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

1. Review of operating results for the period

For the six months ended 30th June, 2005, the unaudited turnover is approximately RMB55,678,000, representing a growth of approximately RMB285,000, or approximately 0.5% increase in turnover as compared with that of the same period in 2004. For the three months ended 30th June, 2005, the unaudited turnover is approximately RMB34,951,000, representing a growth of approximately RMB7,656,000, or approximately 28.0% increase in turnover as compared with that of the same period in 2004.

The unaudited net profit of the Group for the six months and three months ended 30th June, 2005 is approximately RMB4,308,000 and RMB2,306,000 respectively.

2. Product development

- During the report period, the Group managed to keep on its prevalence on enterprise information system. The practical application of corporate flow integrated system and information unification platform received clients' good comments, and met the new demand situations. During the report period, the Group's project, telecommunication management support system, was included by the Ministry of Science and Technology as part of the China Torch Programme.
- During the report period, regarding the value-added services, the Group was engrossed in the development of commercial application in wireless board band internet, providing multi-functional products, entertainment services, information services, etc. Currently, active products being launched by the Company included mobile games and voice message. The mobile games developed by the Group, having undergone the prior stages of internal testing and enhancement, has been near completion. The Company is now considering the most proper business model to introduce the product into the market. Meanwhile, voice message products have also attained progress. Value-added services has been constantly taking the role as a new and an important income source for the Group.



3. Marketing and business development

- During the report period, the Group has won major contracts from Nei Mongol Mobile for its renovation and capacity upgrade work of information system; the UNI-MSS project of Tibet Unicom and Shanghai Unicom; the office automation system (2nd phase) and the OA system unifying address book service item of the nine provinces of North China Division of China Telecom at regional and municipal levels; and the project of Anhui Unicom MSS system.
- During the report period, the Group rested on the principle of doing things professionally by intensifying distribution channels continuously. A team of long term serviced marketing personnel at frontline were promoted due to outstanding performance. In the beginning of the year, the Group adopted a well-established sales plan, and had signed sales-related mission statements together with its subsidiary companies, business departments, and major sales regions, etc., to fix the performance indicators. During the report period, all concerning departments completed reasonably.

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, which being famous companies internationally and domestically. The Group also co-operates with Zhejiang University and Zhejiang University Innovation Technology in the development of telecommunication value-added service in order to make the Group to be a leading telecommunication value-added business operator in China.

5. Employees information

- During the report period, the Group has a total of 262. In accordance with the Group's business structure, the Group facilitated her technological and marketing taskforce and established competent motivation mechanism and performance appraisal system. Thus, remarkable employees were urged to create new technological and management ideas. The Group also associated reputable companies, internationally and domestically, to conduct technological and service trainings, so that the professionalism of staff's service and quality be escalated. Regarding recruiting human resources, focus was placed on recruiting those who are versatile in the industry with terrific track records to join the Group.
- 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 RMB2,950,000 (2004: RMB4,100,000).



FINANCIAL REVIEW

- The Group has maintained sound financial conditions. For the six months ended 30th June, 2005, the Group was mainly financed by funds generated from operations and bank loans.
- As at 30th June, 2005, the Group's cash and bank balances amounted to approximately RMB36,989,000 (31st December, 2004: RMB50,824,000).
- As at 30th June, 2005, the Group had outstanding short term bank borrowings amounted to RMB48,000,000 (31st December, 2004: RMB66,500,000).
- As at 30th June, 2005, the Group had a total asset value of approximately RMB289,413,000 (31st December, 2004: RMB297,310,000).
- As at 30th June, 2005, the Group had current liabilities of approximately RMB125,990,000 (31st December, 2004: RMB138,013,000).
- As at 30th June, 2005, the Group had shareholders' equity of approximately RMB153,837,000 (31st December, 2004: RMB149,529,000).
- As at 30th June, 2005, the Group had minority interests of approximately RMB9,586,000 (31st December, 2004: RMB9,768,000).
- As at 30th June, 2005, the Group had a gearing ratio (the ratio of liabilities to total assets) of approximately 43.5% (31st December, 2004: 46.4%).
- As at 30th June, 2005, the Group had a net current asset ratio (the ratio of current liabilities to current assets) of approximately 48.5% (31st December, 2004: 51.2%).
- As at 30th June, 2005, bank deposits amounting to approximately RMB4,278,000 (31st December, 2004: RMB11,020,000) was pledged to secure general banking facilities of the Group.
- 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.



FUTURE PROSPECTS

1. Orders in hand

The Group has orders in hand amounting to approximately RMB30,000,000.

2. Prospects of new business and new products.

- Regarding the enterprise unification information system, attributable to substantial market shares gained throughout the years, and as well pursuant to the continuous technological renovations and new demand generated, the Group keeps on the clinch with its key clients for market development. At the same time, the system's function will be modified, while the technology innovated in order to intensify commercial applications, and to the satisfaction of customer needs. This will lead the business to be a comparatively stable income source in the Group.
- During the report period, the fact that the project of telecommunication management support system being included by the Ministry of Science and Technology as part of the China Torch Programme gives an evidence for the Group's leading position in the industry. It is believed that the Group will continue to enlarge its market share.
- Value-added business is an important strategic development under the direction of the Group, and has been confirmed as a core business. The Group will integrate investment in research and development with mergers and acquisitions, to increase the income contribution of value-added business to a substantial degree in a short period of time, striving to be developed as a leading value-added business operator in China.
- The current development pipeline includes mobile games, voice message service and the commercial application function based on wireless board band internet. As regards information service (including SMS), through its subsidiary companies, Chengdu Lande and Hangzhou Trust, the Group has been predominating the market.
- By hinging on vantages of linking up with the faculty of Computer Science and Software at Zhejiang University, in furtherance with the Group's strong technology background and expertise in the industry of telecommunication operations, the Group believes that it will accomplish in the field of telecommunication value-added operations.



ADDITIONAL INFORMATION REQUIRED BY THE GEM LISTING RULES

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

Save as disclosed below, as at 30th June, 2005, 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 "SFO")) 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 Directorates 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 shares	Percentage of deemed beneficial interests in the Company's share capital immediately after the Listing
<i>Directors</i>				
Chen Ping	Personal	Beneficial owner	36,392,320	10.72%
Chen Chun	Personal	Beneficial owner	4,094,130	1.21%

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

For the six months ended 30 June 2005, none of the Directors, Supervisors or chief executives was granted options to subscribe for shares of the Company. As at 30 June 2005, 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, had any rights to subscribe for shares (or warrants or debentures, if applicable) or to acquire shares of the Company.

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, 2005, 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, 2005, 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%

On 29 October 2004, the Company's two corporate shareholders, Zhejiang Qware Information Technology Investment & Consulting Company Limited and Zhejiang University Innovation Information Holdings Company Limited, and individual shareholders, Mr. Bao Shu Xin and Mr. Chen Guo Cai had entered into agreements with the Zhejiang University Innovation Technology Company Limited, (a limited company incorporated under the laws of the PRC, whose A shares are listed on PRC stock exchange) respectively. Pursuant to the agreements, the two corporate shareholders and individual shareholders agreed to sell and the Zhejiang University Innovation Technology Company Limited agreed to buy all Domestic Shares. The resolution for the transfer has been reviewed and approved by the Company in the Extraordinary General Meeting held on 24 January 2005. For details of the transactions contemplated under the agreements, please refer to the Company's



announcement issued on 1 November 2004. This transfer of Domestic Shares is subject to the approval by the Ministry of Commerce of the PRC. If approval is attained, Zhejiang University Innovation Technology Company Limited will be the largest shareholder by having 24.1% of beneficial interests in the Company's share capital. The application for approval is now under progress.

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.

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 three independent non-executive directors, Mr. Gu Yu Lin, Mr. Zhang De Xin and Mr. Cai Xiao Fu whereas Mr. Gu Yu Lin is the chairman.

The condensed interim financial statements for the six months ended 30th June, 2005 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, 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30th June, 2005, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and code of conduct regarding securities transactions by Directors.



CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30th June, 2005.

On behalf of the Board
Chen Ping
Chairman

10th August, 2005, Hangzhou, the PRC