

THIRD QUARTERLY REPORT 2005

20  
05



**ZDLD**  
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.**

**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 RMB92,102,000 for the nine months ended 30 September 2005, representing an approximately 11.8% decrease as compared with the turnover for the corresponding period in 2004.
- Accomplished a net profit of approximately RMB6,722,000 for the nine months ended 30 September 2005, representing an approximately 34.9% 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 nine months ended 30 September 2005.

The board of directors (the "Board") of Zheda Lande Scitech Limited (the "Company") is pleased to present the third quarterly report of the Company and its subsidiaries (the "Group") for the nine and three months ended 30 September 2005.

## 2005 THIRD QUARTERLY RESULTS

For the nine months ended 30 September 2005, the Group recorded an unaudited turnover of approximately RMB92,102,000, representing a decrease of approximately RMB12,331,000, or approximately 11.8 % decrease, as compared with the turnover of the same period in 2004. For the three months ended 30 September 2005, the Group recorded an unaudited turnover of approximately RMB36,424,000, representing a decrease of approximately RMB12,616,000, or approximately 25.7% decrease, as compared with the turnover of the same period in 2004.

For the nine and three months ended 30 September 2005, the Group recorded an unaudited net profit of approximately RMB6,722,000 and RMB2,414,000 respectively.

The unaudited results of the Group for the nine and three months ended 30 September 2005 together with the unaudited comparative figures for the corresponding periods in 2004 are as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	2	<b>92,102</b>	104,433	36,424	49,040
Cost of sales		<b>(62,886)</b>	(70,767)	<b>(26,679)</b>	(36,289)
Gross profit		<b>29,216</b>	33,666	<b>9,745</b>	12,751
Value-added tax refunds		<b>3,951</b>	620	<b>166</b>	–
Distribution costs		<b>(7,526)</b>	(6,199)	<b>(2,256)</b>	(2,213)
Administrative expenses		<b>(15,309)</b>	(12,505)	<b>(4,285)</b>	(4,160)
Other operating income/ (expenses)		<b>385</b>	(255)	<b>35</b>	(35)
Profit from operations		<b>10,717</b>	15,327	<b>3,405</b>	6,343
Finance costs, net		<b>(2,982)</b>	(3,036)	<b>(649)</b>	(1,245)
Share of (losses)/profits of associates		<b>(68)</b>	191	<b>92</b>	–
Profit before taxation		<b>7,667</b>	12,482	<b>2,848</b>	5,098
Taxation	3	<b>(1,052)</b>	(2,245)	<b>(359)</b>	(882)
Profit before minority interests		<b>6,615</b>	10,237	<b>2,489</b>	4,216
Minority interests		<b>107</b>	93	<b>(75)</b>	(229)
Net profit		<b>6,722</b>	10,330	<b>2,414</b>	3,987
Earnings per share – basic	4	<b>RMB0.020</b>	RMB0.030	<b>RMB0.007</b>	RMB0.012



Notes:

### 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 20 September 2001 and its H shares were listed on the GEM on 3 May 2002, details of which are set out in the prospectus of the Company dated 24 April 2002 (the "Prospectus").

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards 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. Turnover

	Nine months ended 30 September		Three months ended 30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of telecommunications solutions				
– System integration	<b>30,916</b>	33,085	<b>9,418</b>	11,088
– Sales of self-developed software	<b>22,618</b>	17,043	<b>8,524</b>	6,511
	<b>53,534</b>	50,128	<b>17,942</b>	17,599
Trading of hardware and software	<b>17,477</b>	37,596	<b>7,535</b>	21,723
Other related services	<b>21,091</b>	16,709	<b>10,947</b>	9,718
	<b>92,102</b>	104,433	<b>36,424</b>	49,040

### 3. Taxation

	Nine months ended 30 September		Three months ended 30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<b>1,052</b>	2,245	<b>359</b>	882

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 business of the Group is conducted in PRC and therefore is not subject to Hong Kong profits tax.

#### 4. Earnings per share

Earnings per share have been computed by dividing net profit for the nine and three months ended 30 September 2005 of approximately RMB6,772,000 and approximately RMB2,414,000 (same periods in 2004: approximately RMB10,330,000 and approximately RMB3,987,000) by 339,577,000 shares ( same period in 2004: 339,577,000 shares) in issue.

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

#### 5. Reserves

Save as disclosed below, there were no movements in the reserves of the Group for the relevant periods in 2005 and 2004:

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>
Balance as of 1 January 2004	71,988	4,719	3,012	25,556	3,396
Net profit	-	-	-	6,343	-
Final dividend declared	-	-	-	-	(3396)
Balance as of 30 June 2004	71,988	4,719	3,012	31,899	-
Net profit	-	-	-	3,987	-
Balance as of 30 September 2004	<u>71,988</u>	<u>4,719</u>	<u>3,012</u>	<u>35,886</u>	<u>-</u>
Balance as of 1 January 2005	71,988	6,009	3,657	33,917	-
Net profit	-	-	-	4,308	-
Balance as of 30 June 2005	71,988	6,009	3,657	38,225	-
Net profit	-	-	-	2,414	-
<b>Balance as of 30 September 2005</b>	<b><u>71,988</u></b>	<b><u>6,009</u></b>	<b><u>3,657</u></b>	<b><u>40,639</u></b>	<b><u>-</u></b>



## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

## **REVIEW OF THE THIRD QUARTER**

### **Financial review**

For the nine months ended 30 September 2005, the Group recorded an unaudited turnover of approximately RMB92,102,000, representing a decrease of approximately RMB12,331,000, or approximately 11.8%, as compared with the turnover of the same period in 2004. For the three months ended 30 September 2005, the Group recorded an unaudited turnover of approximately RMB36,424,000, representing a decrease of approximately RMB12,616,000, or approximately 25.7%, as compared with the turnover of the same period in 2004.

For the nine and three months ended 30 September 2005, the Group recorded an unaudited net profit of approximately RMB6,722,000 and RMB2,414,000 respectively.

The main reasons for the decrease in results for the period are:

- (1) attributing to the high volatility of telecommunication industry, the operation enterprises have been prudent in large investments such as system renovation and upgrade, etc, which resulted in a reduction in new orders; and
- (2) the Company's management, having careful consideration, decided to implement a shift in operation strategy by developing forcibly in telecommunication value-added business. At present, it is under its investing stage.

### **Business review**

#### *Product development*

During the period, regarding value-added business, the Group concentrated on its development on diverse types of products which are based on wireless broadband internet, such as the commercial application products, the entertainment service products and the information service products, etc. At the present moment, those products which the Company endeavoured to develop include mobile phone games; fixed line secretarial system based on fixed line network and open-phone-link products based on mobile phone network. The mobile games which were developed by the Group, after having undergone the prior phases of internal assessment and enhancement, became better as to approaching perfection day by day. The Company is currently making its deliberations in procuring a suitable business operation model as market launcher. The fixed line secretarial system and the open-phone-link system have won the first patch of operation contracts with the China Telecom, the China Netcom and the China Unicom. These operations have entered into system construction stages.



During the period, the Group's management support system maintained its predominance, whereas the corporate flow integrated system as well as the unification information platform gained remarkable appraisals from customers through practical applications in terms of accommodations to novel situation needs. The new version of the management support system was in development progress and was planned to launch to the market in the early next year. The Group's telecommunication management support system, as an earmarked case, was included by the Ministry of Science and Technology as part of the China Torch Programme. A strategic move was triggered off for both of brand new product planning and distribution model since then.

### *Marketing and business development*

In the aspect of value-added business, after a string of preparation, the major value-added service companies within the Group have attained the business licenses issued by the Ministry of China Information Properties for cross-provincial telecommunication value-added business. The first national marketing conference was also held in October of this year, which commenced to trigger off the overall marketing arrangement and expansion schedule in China. Presently, apart from Zhejiang, Sichuan which are the provinces that entry of market is ascertainable, other provinces like Guangdong, Guangxi, Fujian, Henan, Anhui, Jiangsu, Beijing, Chongqing and Nei Mongol, etc, are determined to be the first of its kind being in focus of development. The operation contracts of fixed network message project has been confirmed by Henan Netcom, Zhejiang Telecom, now being under system and operation preparations. The operation contract was also signed with Guangxi Telecom for mobile phone open-phone-link project.

The major expansion of the value-added business also includes acquisition of a few number of matured operation companies. In order to meet the needs of overall arrangement, the Company planned to either acquire or invest to establish local operation companies in provinces like Beijing, Guangdong, Fujian, etc. This is done to ensure that the Group's value-added business can derive substantial operating income from at least five provinces by the year 2006.

Regarding the region of application service, the Company continues to obtain important contracts, embracing management support system service contracts for Zhejiang Mobile and Jiangxi Mobile, and the management support system capacity expansion of the nine provinces of North China Division of China Telecom. On the other hand, the contracts of Northern Telecom management support system (2nd phase), Chongqing Unicom management support system (2nd phase) and Yunnan Mobile management support system (2nd phase) have all been confirmed basically. It is hoped that the contracts will be signed within the next quarter. Referring to telecommunication support system, the Company gained service contracts from various provinces of Northern Telecom. Sichuan Telecom has also signed the contract for on-line sales shop project; whereas on-line sales shop project engaged with Zhejiang Mobile will be our next quarter's major thrust.





### Future prospects

During the period, the Group will maintain its advantageous position within the industry. The Company will continuously facilitate the product structure and increase research effort to strengthen its market competitive power. In the light of its ever-increasing input in the field of value-added service, the Company's development direction is clear. The Company dedicates to make value-added service business an innovated source of profit growth. The Company will introduce value-added product service in multi-dimensions.

The major development direction of value-added service is geared to the wireless media, operation of functional value-added service on communication network, voice communication service and mobile phone games, etc. The Company will also speed up its national positioning and perfect the value-added service product line by means of mergers and acquisitions and become the leading operator in China's value-added business sector.

For those products having traditional advantages, such as the management support system, etc., the Company will keep the leading position as before. It also strives to develop important customers external to the communication industry. On the other hand, the Company will cater for small medium enterprises (SMEs) through research and development activities so that the Company's product spectrum will be enlarged.

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

Save as disclosed below, as at 30 September 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 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%

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

For the nine months ended 30 September 2005, none of the Directors, Supervisors, or chief executives was granted options to subscribe for shares of the Company. As at 30 September 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 30 September 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 30 September 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%
Guoheng Media Science Group Co., Ltd. (formerly known as "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%
Shiu 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. The transfer of Domestic Shares was approved by the Ministry of Commerce of the PRC. The Company is in the process of changing the registration particulars with the Ministry of Commerce. Upon completion of the registration formalities, Zhejiang University Innovation Technology Company Limited will be the largest shareholder by having 24.1% of beneficial interests in the Company's share capital.

## **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 third quarterly report of the Group for the nine months ended 30 September 2005 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 period from 1 January 2005 to 30 September 2005.

On behalf of the Board

**Chen Ping**  
*Chairman*

9 November 2005, Hangzhou, the PRC