ANNUAL REPORT 2005

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)

Stock Code: 8106

* 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 of the Stock Exchange 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.

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Corporate Information

DIRECTORS

Executive directors

Mr. Chen Ping *(Chairman)*
Mr. Xue Shi Cheng
Mr. Hu Yang Jun
Ms. Pan Lichun
Mr. Shi Lie

Independent non-executive directors

Mr. Cai Xiao Fu
Mr. Zhang De Xin
Mr. Gu Yu Lin

SUPERVISORS

Supervisors

Mr. Huo Zhong Hui
Ms. Liu Cui Yu
Mr. Fu Liang Yuan

Independent supervisors

Mr. Wang Hui
Mr. Feng Pei Xian

AUTHORISED REPRESENTATIVE

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. Gu Yu Lin
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

Room 1116-1119
Sun Hung Kai Center
30 Harbour Road
Wanchai
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 (Cont'd)

AUDITORS

BDO McCabe Lo Limited
25/F Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISERS

Li & Partners Solicitors
22nd Floor
World-wide House
19 Des Voeux Road
Central
Hong Kong

PRINCIPAL BANKER

Shanghai Pudong Development Bank
Hangzhou Branch
129 Yanan Road
Hangzhou City
Zhejiang Province
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 ("Zheda Lande" or the "Company") the 2005 Annual Report of the Company and its subsidiaries (together the "Group").

FINANCIAL HIGHLIGHTS

I hereby announce that for the year ended 31 December 2005, the Group realised a turnover of RMB118,208,000 with a net loss of RMB28,348,000. Attributable to the influence under strategic adjustment of the Group, the results decline to a large extent when comparing to prior times. However, it is believed that following the continual perfection of the adjustment measures and the start on of new business, the Group will resume the right track and the results are expected to be better than before.

The Board does not recommend a final dividend payment for the financial year ended 31 December 2005.

OPERATION REVIEW

In the year of 2005, the Group endeavored to push ahead on strategy, transforming from traditional application services to value-added services. From the standing point of the Group, the year of 2005 was full of challenges. The Group adopted a lot of measures to enforce strategic change, regulated the marketing structure, reorganised management team, prioritised and made competent the market channel. Although it take pains in adjusting this strategy by affecting the results tremendously, this kind of adjustment is necessary. It is glad to see that, after a period of adjustment, a good trend seems to be salient gradually.

At the end of 2005, the Group disposed the telecommunications operation support business and the whole team to AsiaInfo with a view to focusing more resources on the development of value-added business. In the period, those business operations such as SMS, voice message, secretarial station, WAP, family-school link, etc., were all maintaining a good increment. For positioning business, the inner river basin ship positioning management system was completed and the star picture product, which was based on GPSOne positioning technology, was launched.

Chairman's Statement (Cont'd)

FUTURE PROSPECTS

For the year of 2006, we anticipate to have a seemingly effect as a result of adjustments, and experienced a faster development in value-added service as our core business. Regarding value-added service's direction, the Group will continue to devote in deepening the product development and operational promotion of the original value-added business of SMS, voice message, secretarial station, WAP, etc. In the education side, co-operation with related web sites to launch related information service product will be carried on. The Group will also make one more step ahead to promote products concerning with the Cornucopia Alliance to customers national-wise. The Group will also speed up its product development in positioning business and launch GIS platform as soon as possible. The Group will continue to increase its investment in value-added industry, wireless media, and voice message, striving to act as the leading operator in these regions in China. In the aspect of application service, the Group will engage in product development of enterprise information platform, development of gateway and certification products in telecommunication industry and developments in knowledge management and decision making support, etc. Also the Group will take efforts in product developments relating to eGovernment to procuratorate, medicine authority, public hygiene bureau, etc

APPRECIATION

Last but not least, on behalf of the Board and the management, I would like to express my gratitude to the operation partners, customers and other shareholders for their support in the past year. My thanks also go to those industrious and perseverance staff for their hard work.

Looking ahead for the future, we continue to grasp every opportunity to raise the Company's value.

Chen Ping
Chairman

29 March 2006
Hangzhou, the PRC

Management Discussion and Analysis

OPERATION REVIEW

1. Review of operating results for the year

For the year ended 31 December 2005, the audited consolidated turnover of the Group was approximately RMB118,208,000, representing a decrease of approximately RMB67,431,000, or approximately 36.32% as compared with that of 2004.

The audited net loss attributable to shareholders of the Company for the year ended 31 December 2005 was approximately RMB28,348,000, comparing to the audited net profit attributable to shareholders of the Company for the year ended 31 December 2004 of approximately RMB10,296,000.

The main reasons for the results for the year are:

(1) Customers of application service product lines competed in oligarchy position. A lot of enterprises bear operations similar to that of our Company, the market situation is bad with sheer competition, all resulting in a low profitability.

(2) There is a gradual recession in the investment scale of communication industry in application service system construction.

(3) Value-added services being at its developing stage, the expenditure used in construction of platform, research, development and marketing of products are high, and time for return is needed.

Specifically, the loss for the year was mainly attributable to:

(1) impairment loss on loans and receivables of RMB9,749,000;

(2) write-down of inventories to net realisable value of RMB3,629,000; and

(3) research and development cost of RMB2,242,000.

Management Discussion and Analysis (Cont'd)

2. Product development

After a year of difficult reformation, the Company's product line was very clear. Presently, the Company's value-added service business line included the traditional value-added service business, the renovated business derived from it and also the industries value-added service business. Traditional value-added products included SMS, voice message, secretarial station, WAP, etc. During the review period, this business received even larger extent of operation and promotion. The renovated business, which was based on traditional value-added business, represented the new business developed through the market application and function enhancement of the original SMS. voice message, secretarial station, WAP and for meeting the market demand. For example, in the aspect of voice message, products based on voice recognising and voice synthesising were launched. In the aspect of SMS operation, emphasis was placed on the practical application function of SMS in different industries. Presently, this kind of products includes traffic short message, family-school link and association with commercial parties to give discount sales to the consumer public (the "Cornucopia Alliance"). Whereas on the side of value-added fixed line telephone, products for notifying missed calls on fixed line telephone was launched, which acted as a sign of pushing products relating to fixed line telephone value-added business. The Group also launched the "Kai Gi Tone" products for mobile phone.

Positioning business was a product of industries value-added service, and was also a prime business with much attention given by the Company. Presently, the Group has been completed the inner river basin ship positioning management system, launched the star picture product which was based on GPSOne positioning technology. This product is now in the promotional stage.

In the period, in the aspect of application service business, the version unification of management support system for application service system management support system and business support system was completed. This made a good basis for future promotion and maintanence. Regarding the aspect of eGovernment buisiness, the Group has completed the development of application support platform and commenced to the development of JSEE based eGovernment products.

3. Marketing and business development

In the period, in the aspect of value -added business, the Group mainly completed the connection with business operators, including provinces like Xiangjin, Fujian, Heilongjiang, etc. The product marketing set up was completed, and had the market further developed forcibly. Presently, business in the field of artificial secretary, SMS, voice message application platform, WAP, reply voice tone business, family-school link, positioning business, etc were having relatively stable user groups.

In the period, in the field of application service business, the Company's management support system has procured capacity expansion projects for China Mobile in five provinces including Jiangxi Mobile, Zhejiang Mobile, Guizhou Mobile, Yunnan Mobile, Nei Mongol Mobile as well as a considerable number of capacity expansion projects with Unicom. For eGovernment business, orders from Zhejiang Province Hygiene Information Centre and Zhejiang Province People Court were secured.

4. **Employees information**

- As at 31 December 2005, the Group had 346 (2004: 307) employees in total. The total staff costs of the Group for the year amounted to approximately RMB13,660,000 (2004: RMB10,317,000).

- The Group's establishment of human resources management strategy is under guidance laid down by its development strategy on one hand, while it is also directed by the target regulated with vision plan on the other. Being an important constituent as to make up the development the Group's collective strategy, human resources strategy gives a fundamental support and impulsive effect to make the Group's collective strategy to be realised. From the Group's integral strategy point of view, the entire infrastructure of human resources management is built-in. Likewise, the incentive scheme and other human resources programs are interrelated and let be flourishing in this cross match.

- The Group opens more widely for recruitment channels, and set up mechanisms attracting human resources; grasp for human development and formulate a good system in people deployment and development.

- The Group has implemented an annual income target system, which is achieved by linking up staff performance appraisal and compensation system. Target annual income is confirmed and is paid out in accordance with performance appraisal result. This gives a total assessment in employee's aspect of job performance, capability, and work attitude so that an integrated evaluation can be given to them. Using the above as reference standard, the link can act as a motivating factor to employee and also can guarantee that the Group's aim be achieved smoothly.

- The Group did envisage on employee's personal development, and provided employees with training courses on quality and skills. By conducting training needs assessment, the Group has invited professional consulting firms to design training system and courses. Training plan is made to suit individual staff so as to help staffs more compatible with the Company's job requirement and having thorough development in their career lives. The Group can have more better development only if employee can be upgraded substantially.

The Group did not issue any share options nor had any bonus plan.

Management Discussion and Analysis (Cont'd)

FINANCIAL REVIEW

- The Group maintained creditable financial conditions. For the year ended 31 December 2005, the Group was mainly financed by proceeds generated from daily operations, bank borrowings and the listing funds.

- As at 31 December 2005, the Group's cash and bank deposits balances amounted to approximately RMB75,803,000 (2004: RMB50,824,000).

- As at 31 December 2005, the Group had unsecured short-term borrowings amounted to RMB74,000,000 (2004: RMB66,500,000), at interest rates ranging from 4.6% to 6.7% (2004: 5.3% to 5.9%).

- As at 31 December 2005, the Group had a total asset value of approximately RMB274,915,000 (2004: RMB297,310,000).

- As at 31 December 2005, the Group had current liabilities of approximately RMB142,178,000 (2004: RMB138,013,000).

- As at 31 December 2005, the Group had shareholders' equity of approximately RMB121,181,000 (2004: RMB149,529,000).

- As at 31 December 2005, the Group had minority interests of approximately RMB11,556,000 (2004: RMB9,768,000).

- As at 31 December 2005, the Group had a gearing ratio (i.e. the ratio of liabilities to total assets) of approximately 51.72% (2004: 46.42%).

- As at 31 December 2005, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 56.48% (2004: 50.91%).

- As all of the Group's account payables due purchase and account receivables of sales are in Reminbi, there is no foreign exchange risk.

- As at 31 December 2005, the Group had no contingent liabilities (2004: Nil).

- As at 31 December 2005, the bank deposits amounting to RMB19,848,000 (2004: RMB11,020,000) were pledged.

FUTURE PROSPECTS

1. Orders and contracts in hand

The total amount of orders in hand of the Group is not less than RMB20,000,000. Major items include the management support system capacity expansion projects in various provinces and eGovernment information contracts entered into with Tiantai County People's Government Information Centre, Hsiu Zhou Regional Information Centre, Chun On County People's Government, Upper City Zone Government, Shueng Yue Municipal People's Procuratorate Government Office, Zhejiang Province Hygiene Information Centre, Zhejiang Province People's Court, and Tung Village Municipal People's Government Office. Chou Zhan Municipal Information Centre, Shaoshing County Construction Authority Office, Hangzhou Municipal Food & Medicine Supervision Management Authority, Shui On City Development and Renovation Bureau, Shui On City Information Office, Yu Wan County Information Centre, Hu Zhou Nan Tao Regional Information Centre. In relation to family school link, the Group has contemporary signed contracts with more than 400 schools. 130 schools having finished and now development still under implementation.

2. Prospects of new business and new products

For the year of 2006, regarding value-added service's business, the Group will continue to devote in deepening the product development and operational promotion of the original value-added business of SMS, voice message, secretarial station, WAP, etc. In the education side, co-operation with related web sites to launch related information service product will be carried on. The Group will also make one more step ahead to promote products concerning with the Cornucopia Alliance to customers national-wise. The Group will also speed up its product development in the positioning business and launch GIS platform as soon as possible. The Company has also the chance to participate in product development of digital television related value-added business.

Regarding the application service business, the Group will focus on the development of products relating to enterprise information platform as well as gateway and certification in the telecommunication industry. Also the Group will take efforts in developing eGovernment related products with entities like procuratorate, medicine authority, public hygiene bureau, etc

Directors, Supervisors and Senior Management

DIRECTORS

Executive directors

Mr. Chen Ping, aged 42, 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. Mr. Chen Ping 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 Ping has been involved in the R&D of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize in 1993. Mr. Chen Ping had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University for 7 years up to 1997. Mr. Chen Ping has published two computers networking academic textbooks and professional technology magazines in China and has published more than ten of his academic papers. Mr. Chen Ping joined the Company in May 1997. Mr. Chen Ping is a promoter and substantial shareholder of the Company who holds approximately 10.72% of the issued share capital of the Company.

Mr. Xue Shi Cheng, aged 42, is the vice chairman of the Company. Mr. Xue Shi Cheng 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 Shi Cheng has served as the deputy secretary-general of Beihai Government, the vice president of Guoheng Media Science Group Company Limited (formerly known as Beijing Guoheng High Technology Holding Company Limited), a promoter and substantial shareholder of the Company, 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 Shi Cheng 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 Shi Cheng joined the Company in April 2001.

Mr. Hu Yang Jun, aged 35, was the deputy general manager of Zhejiang Ju Neng Dongfang Holdings Company Limited and the manager of the import and export division of Zhejiang Dongfang Group. He graduated with a bachelor degree in Chinese Language and Literature from Anhui Normal University. Mr. Hu Yang Jun was appointed as a non-executive director of the Company since February 2004.

Directors, Supervisors and Senior Management (Cont'd)

Ms. Pan Lichun, aged 37, graduated from the School of Economics of (Zhejiang University) with a PhD degree. Ms. Pan was the assistant general manager and the vice general manager of (Zhejiang Natural Holdings Limited) from 2000 to 2001. Ms. Pan was also the manager of investment department and the vice general manager of financial management centre in (Zhejiang Conba Group Company Limited) and the director of (Zhejiang Conba Pharmaceutical Company Limited) from 2002 to 2005. Ms. Pan is currently the director and vice chief executive officer of (Zhejiang University Innovation Technology Company Limited) ("ZUITCL"), a limited company incorporated under the laws of the People's Republic of China, who's A shares are listed on the Shanghai Stock Exchange, and a substantial shareholder of the Company. Ms. Pan has been appointed as an executive Director with effect from 22 August 2005.

Mr. Shi Lie, aged 41, graduated from (Zhejiang University) with a PhD degree in Computer Applications. Mr. Shi was the chief executive officer of (Zhejiang University Innovation Tuling Information Technology Company Limited) from September 1990 to August 2002. Mr. Shi is currently the director and the chief executive officer of ZUITCL. Mr. Shi has been appointed as an executive Director with effect from 22 August 2005. Save as disclosed above, each of the above Directors has not held any directorship in other listed public companies in the last three years.

Independent non-executive directors

Mr. Cai Xiao Fu, 67, is a senior engineer and the chairman of Zhejiang Province Software Industry Association, inspecting and monitoring the development of Zhejiang Province IT industry. Mr. Cai graduated from Tsing Hua University's faculty of Control Automation in July 1963. He attended the Polytechnic of Cranfield in the United Kingdom during October 1981 to January 1984 to research aeronautics and computer simulation devices. Mr. Cai is currently an independent non-executive director of Sino Stride Technology (Holdings) Limited, a company whose shares are listed on the GEM (Stock code: 8177). Mr. Cai joined the Company in October 2001.

Mr. Zhang De Xin, 76, graduated from the faculty of Electrical & Mechanical Engineering at Zhejiang University in July 1953 and at Tsing Hua University in June 1956 respectively. He attended Illinois Institute of Technology in the United States from June 1982 to May 1984 to conduct research in the fields of Electrical & Mechanical as well as Computer Engineering. Professor Zhang has served as a professor at Zhejiang University's faculties of Electrical & Mechanical Engineering, Wireless Engineering and Computer Science for 37 years since 1956. He has also been a committee member 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 awarded winner of the Zhejiang Province Science and Technology Advancement in 1989, 1991 and 1993 for three times. Mr. Zhang joined the Company in October 2001.

Directors, Supervisors and Senior Management (Cont'd)

Mr. Gu Yu Lin, 35, is an assistant accountant. Mr. Gu graduated from the Faculty of Finance and Accounting of Fudan University in June 1997. Mr. Gu is currently working in the general office of Zhejiang University. He has been the independent supervisor of the Company before and was appointed as an independent non-executive Director since September 2004.

SUPERVISORS

Supervisors

Mr. Huo Zhong Hui, 36, graduated in 1995 with a master degree in the faculty of Computer Software in Zhejiang University. He joined the Company in March 1999 and is now engaged in the fields of research and technology.

Mr. Fu Liang Yuan, 50, has once been a lecturer in the faculty of Commerce at Shanghai Polytechnic University. Mr. Fu joined the Shanghai Huazhan Group Holdings Company Limited in 1999, a company that pursues in industrial investment, and worked as the assistant controller 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 monitoring the investment department. Mr. Fu had previously served as the financial controller of Huatong International Group Company Limited headquartered in Shanghai since August 2000 for 8 months. Mr. Fu joined the Group in April 2001.

Ms. Liu Cui Yu, 32, an economist, currently appointed as the manageress of the Company's integrated management department. Ms. Liu graduated from Hebei Normal University in the faculty of Chinese Language. Ms. Liu has many years of affluent job experiences in personnel and administration management.

Independent supervisors

Mr. Wang Hui, 32, graduated from the Zhejiang Finance Institute in Professional Auditing and was admitted as a PRC certified public accountant. He is currently the senior project manager of Zhejiang Zhonghui Certified Public Accountants.

Mr. Feng Pei Xian, 69, is responsible for supervisory function in relation to the Company's board of directors, managers and other officers and report independently to the Shareholders in general meeting of the Company. Mr. Feng was the assistant 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 senior reporter of the China Computing News in Zhexiang.

Directors, Supervisors and Senior Management (Cont'd)

SENIOR MANAGEMENT

Mr. Chen Wei, 42, executive president of the Company. Mr. Chen graduated from Zheijang Industrial University and majored in Electronic Surveying. Before joining the Company, Mr. Chen held positions as deputy general manager of Zhejiang Hong Cheng Computer System Company Limited and Zhejiang University Innovation Electronic Information Company Limited respectively. Mr. Chen joined the Company in January 2003.

Ms. Liu Qiao Ping, 33, is the Company's vice-president and the secretary to the Board. She graduated from the University of Petroleum (Eastern China). Ms. Liu is now responsible for the duty of secretary to the Board and public relation (including the Government side); she joined the Company since April 1988.

Mr. Wang Lei, 32, vice-president of the Company. Mr. Wang graduated from Zhejieng University's Computer Science and Technology Department with a Master Degree. Mr. Wang has been involved and is very experienced in technology research and development.

Mr. Jin Lian Fu, 59, vice-president of the Company, is responsible for administrative management. Mr. Jin graduated from the faculty of Applied Mathematics of Zhejiang University. He is also an associate professor and an advisor to master degree undergraduates at Computing faculty of Zhejiang University.

Mr. Li Tak Hong, 38, has a doctoral degree of Politics and Economics in Zhejiang University. Mr. Li jointed the Company in December 2004 with the current position as vice president. Mr. Li possesses numerous years of experience in financial management, possessing versatile expertise in fields of investment and capital financing.

Ms. Chan Ching Yi, 31, is the qualified accountant and company secretary of the Company. Miss Chan is an associate member of the Association of Chartered Certified Accountants and has over 5 years of experience in auditing and accounting fields.

Report of Corporate Governance

Durig the year ended 31 December 2005, the Company kept conducts pursuant to the GEM Listing Rule of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), and to the Code on Corporate Governance Practices as stipulated in Appendix 15 to the GEM Listing Rules. However, based on a few practical situations of the Company, there was a disparity of it from the Code of Corporate Governance Practices. Nevertheless, the Company and the Board had a mutual consent that this kind of disparity would not spoil the shareholder's benefits and the Company's value.

BOARD PRACTICES AND PROCEDURES

In the period, the Company all along abided by No. 5.34 of GEM Listing Rules and the Code on Corporate Governance Practices and the Articles of Association meeting the requirements of board of directors meeting, notice and resolution, etc. After all, the tightest provisions set up by the GEM Listing Rules, the Code of Corporate Governance Practices, the Associations of Articles were executed.

For the year ended 31 December 2005, there were a total of eight directors including five executive directors and three independent non executive directors, whose terms of appointment will expire by 20 September 2007. The qualifications for appointment of directors are pursuant to requirements under the Company Law of the Republic of China and GEM Listing Rules.

DIRECTOR'S TRANSACTION IN SECURITIES

The Company has adopted the "Compulsory Transaction Guidelines Standards" to bind company directors. The standards are also applicable to supervisors and senior management level. Having enquires by the Company, all directors, supervisors and senior management confirmed that they have abided by the "Compulsory Transaction Guidelines Standards" in the period.

Within 2005, the Company held a total of nine board of meetings (board meeting convened by communication method is included), considered and resolved on Company's principal issues under the topics of operation, management and finance, etc. Directors managed to discharge their duties with due diligence, and also invited supervisors to sit in every meeting. Below is the details of directors attendance for board meetings.

Report of Corporate Governance (Cont'd)

	Number of meetings attended/ Number of meetings held
Executive Directors	
Chen Ping	9/9
Zhao Jian *(Note 1)*	4/9
Chen Chun *(Note 2)*	5/9
Xue Shi Cheng	8/9
Hu Yang Jun	6/9
Shi Lie *(Note 3)*	4/9
Pan Lichun *(Note 4)*	4/9
Independent Non Executive Directors	
Gu Yu Lin	9/9
Cai Xiao Fu	9/9
Zhang De Xin	9/9

Note 1: Zhau Jian has resigned as executive Directors with effect from 22 August 2005

Note 2: Chen Chun has resigned as executive Directors with effect from 22 August 2005

Note 3: Pan Lichun has been appointed as executive Directors with effect from 22 August 2005

Note 4: Shi Lie has been appointed as executive Directors with effect from 22 August 2005

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the Code on Corporate Governance Practices No. A.2.1: "The roles of chairman and chief executive officer should be separate.", the Company has a discrepancy with the rules of code of practices. This is attributed to decision of the Company based on factual situation that Mr. Chen Ping is the founder of the Company, who is the best candidate to be the chairman. At the same time and long term speaking, Mr. Chen Ping has a prestige reputation within the Company, hence the Company realises that Mr. Chen is also the best choice for position of chief executive officer. After all, the Company is dedicated to seek for a new candidate to fill in the post of chief executive officer, so that the requirement of the Code on Corporate Governance Practices is satisfied.

Report of Corporate Governance (Cont'd)

DIRECTORS' REMUNERATION

For the year 2005, the remuneration of directors of the Company mainly comprised of basic salaries. Details of directors' remuneration are as follows:

Name of Directors	Remuneration *(RMB)*	Director's fee *(RMB)*
Chen Ping	250,000	
Zhao Jian	10,000	
Chen Chun	20,000	
Xue Shi Cheng	180,000	20,000
Hu Yang Jun	20,000	
Shi Lie	10,000	
Pan Lichun	10,000	
Gu Yu Lin	10,000	
Cai Xiao Fu	10,000	
Zhang De Xin	10,000	

APPOINTMENT OF DIRECTORS

The Board of Director in the year was appointed in the Extraordinary General Meeting held on 30 September 2004. Eight directors were appointed and entered into a three year service agreement with the Company. In the period, Mr. Chen Chun and Jian have resigned as executive Directors. The Board has appointed Ms. Pan Lichun and Mr. Shi Lie as executive Directors with effect from 22 August 2005.

AUDIT COMMITTEE

The Company has established an audit committee at the beginning stage of listing and stipulates duty and accountabilities in compliance with the requirements as set out in Rules 5.28 and 5.59 of the GEM Listing Rules. The main duty of the audit committee is to audit and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises three independent non executive directors, Mr. Gu Yu Lin, Mr. Zhang De Xin and Mr. Cai Xiao Fu where as Mr. Gu Yu Lin is the chairman. In the period, the audit committee convened four meetings and reviewed the annual results of the year 2004 and the results of the first quarterly report, half-year report, and the third quarterly result of the year 2005. The committee discussed on the financial status of the Company, internal audit affairs, etc; and also heard Auditor's opinion.

The following are the details of the audit committee attending meetings in the period:

Audit Committee Members	Number of meetings attended/ Number of meetings held
Gu Yu Lin	4/4
Cai Xiao Fu	4/4
Zhang De Xin	4/4

An audit committee meeting is held on 29 March 2006 to consider and discuss the results, financial conditions, principal accounting policy and matters concerning internal audit for the year ended 31 December 2005. Questions focused on auditor's report are asked on relevant financial members.

REMUNERATION COMMITTEE

According to relevant rules of the Code of Corporate Governance, it is necessary to set up a remuneration committee and have their rights and duties listed in written form. At the present moment, the Company has not set up yet, bearing a discrepancy as to the GEM listing rules. The Company is now engrossed in organizing a remuneration committee to meet the listing rules.

According to the Company's internal rules and regulations, the human resources department is used to be responsible for the formulation of the remuneration policy company wise. In actual practice, the Company follows the procedure in that the remunerations of directors and senior management staff should have been evaluated by the human resources department. The remuneration decided should be benchmarked with the salary level in the same industry, and the remuneration plan is drafted and submitted to the Board. At the same time, directors and senior management staff who are affiliated should refrain from deciding their own remuneration. The above procedures set up suffice to say that the transparency throughout the process be guaranteed.

NOMINATION COMMITTEE

In accordance with the recommended best practices of Code of Corporate Governance A.4.4, "Issuers should establish a nomination committee. A majority of the members of the nomination committee should be independent non-executive director". But that, it is still an outstanding item of the Company for the provision of committee. Present terms of appointment of directors are generated according to the Articles of Association, which stipulates the terms of appointment and duties of directors clearly. Furthermore, the Company is now considering actively the setting up of committee so that the best recommended enforceable.

COMMUNICAITONS BETWEEN SHAREHOLDERS AND INVESTORS

In respect of enquires raised from investors, the Company always provides feedback based on the rationale of transparency and accountability. The Company provides an investor column in its website for providing feedbacks to investors' questions.

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 2005.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the development and sales of software and network system, to provide technical support services and sales 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 loss from operations on business segment activities basis has been set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2005 and its state of affairs as at that date are set out in the financial statements on pages 29 to 79 of the annual report. The Board recommends the appropriations for the year ended 31 December 2005 be appropriated as follows:

	RMB'000
Transfer to statutory surplus reserve	901
Transfer to statutory public welfare reserve	–
	901

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

PROFIT AVAILABLE FOR DISTRIBUTION

At 31 December 2005, the Group's profit available for distributable to shareholders amounted to approximately RMB4,668,000 (2004: RMB33,917,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

BORROWINGS AND INTERESTS CAPITALISATION

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

SHARE CAPITAL

Details of the Company's share capital are set out in note 25 to the financial statements.

RESERVES

Details of the reserves of the Group and the Company are set out in note 26 to the financial statements.

RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note 34 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 54.96% of the Group's turnover and the largest customer of the Group accounted for approximately 26.37% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 77.03% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 28.89% of the Group's direct purchases for the year.

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's 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 2005.

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2005 and the Group's assets and liabilities as at 31 December 2001, 2002, 2003, 2004 and 2005 is set out on page 80 of the annual report.

DIRECTORS AND SUPERVISORS

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

Executive directors

Mr. Chen Ping *(Chairman)*
Mr. Xue Shi Cheng
Mr. Hu Yang Jun
Ms. Pan Lichun (appointed on 22 August 2005)
Mr. Shi Lie (appointed on 22 August 2005)
Mr. Chen Chun (resigned on 22 August 2005)
Mr. Zhao Jian (resigned on 22 August 2005)

Report of the Directors (Cont'd)

Independent non-executive directors

Mr. Cai Xiao Fu
Mr. Zhang De Xin
Mr. Gu Yu Lin

Supervisors

Mr. Fu Liang Yuan
Mr. Huo Zhong Hui
Ms. Liu Chi Yu

Independent supervisors

Mr.Feng Pei Xian
Mr. Wang Hui
Mr.Gu Yu Lin

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

An Extraordinary General Meeting was held on 30 September 2004 for re-elections and appointment of directors and supervisors. Eight directors and five supervisors were appointed. Each appointed director and supervisor has entered into a three year service agreement with the Company.

In the period, Mr. Chen Chun and Zhau Jian have resigned as executive Directors with effect from 22 August 2005 due to personal reasons. The Board has appointed Ms. Pan Lichun and Mr. Shi Lie as executive Directors with effect from 22 August 2005 until the conclusion of the next annual general meeting of the Company.

All appointments are subject to termination in certain circumstances as stipulated in the relevant service agreement. In the event that the appointment of the director or supervisor is terminated in the annual general meeting of the Company without any reason, the relevant director or supervisor may claim for compensation from the Company.

Saved as disclosed above, none of directors nor did the supervisors proposed for re-election at forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the directors, supervisors and senior management are set out on pages 12 to 15 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 notes 8 and 9 to the financial statements.

DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 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 "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
Directors				
Chen Ping	Personal	Beneficial owner	36,392,320	10.72%

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.

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

Save as disclosed herein, during the year ended 31 December 2005, none of the Directors, Supervisors or chief executives was granted options to subscribe for shares of the Company. As at 31 December, 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.

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 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 shares held	Percentage of beneficial interests in the Company's share capital
Zhejiang University Innovation Information Holdings Company Limited	Beneficial owner	81,802,637 domestic shares	24.10%
Guoheng Media Science Group Company Limited (formerly known as Beijing Guoheng High Technology Holding Company Limited)	Beneficial owner	34,117,800 domestic shares	10.05%
Fong For	Beneficial owner	21,735,000 H shares	6.40%
Shi Chu Hua	Beneficial owner	16,490,280 domestic shares	4.86%
Wu Zhong Hao	Beneficial owner	16,490,280 domestic shares	4.86%

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 proceeding the date of the grant of the options and (c) the nominal value of the H Shares. However, for employees who are PRC national and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

(1) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC national from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed; and

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

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

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

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

Report of the Directors (Cont'd)

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 2005.

PRE-EMPTIVE RIGHTS

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

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 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. In the period, the audit committee reviewed the first quarterly report, half-year report, the third quarterly report and the annual report of the Group.

SUBSEQUENT EVENTS

The subsequent events of the Group for the year ended 31 December 2005 are set out in note 37 to the financial statements.

AUDITORS

During the year, KLL Associates CPA Limited resigned as auditors of the Group. On 25 November 2005, the Group appointed BDO McCabe Lo Limited as auditors of the Group to hold office until the conclusion of the forthcoming annual general meeting of the Company.

A resolution for the re-appointment of auditors for the year 2006 will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chen Ping
Chairman

29 March 2006
Hangzhou, the PRC

Report of the Supervisory Committee

The Supervisor Committee is pleased to present the annual report for the year of 2005.

SUPERVISORY COMMITTEE OPERATION REVIEW

In the period, the supervisors of the Company convoked four meetings to review the quarterly results and the audited annual financial statements and attended every board meeting held, has examined the legitimacy and validity, pursuant to the investiture of the shareholders' meeting and Articles of Association, upon convocation and voting procedures of meetings of the Board. They inspected whether the resolutions passed by Board correspond with the PRC laws and the stipulations of Articles of Association or not, and adduced feasible proposals. The Supervisory Committee considered that the convocation and the voting procedures of the Board meetings correspond with the PRC laws and Articles of Association. The shareholders' meeting's resolution can be executed effectively. The Supervisory Committee can obtain the respect and its suggestions were accepted.

FINANCIAL POSITION OF COMPANY

In the period, the Supervisory Committee has supervised and inspected the operating results of the Company. It is considered that the report issued by the auditors presents truly, precisely and fairly the operating results of the Group. The consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards and the PRC Accounting Regulations, and has compiled with PRC statutory regulations correlated with accounting matters.

INTEGRITY OF AVOCATION OF DIRECTORS AND SENIOR MANAGEMENT

In the period, the Supervisory Committee executed its obligations and supervised on the integrity of avocation of the Board and senior management, in order to raise the Board's and senior management's onus to perform their duties with good faith and due diligence, and avoid the operational risk incurable to the Group because of the personal fault.

During the period, the Supervisory Committee inspected that the Board and the managers did not violate China laws, regulations, and Articles of Association when executing their duties, and no occurrence of impairment to shareholders' benefit either.

By order of the Supervisory Committee
Huo Zhong Hui
Chairman of the Supervisory Committee

29 March 2006
Hangzhou, the PRC

Report of the Auditors

BDO McCabe Lo Limited
Certified Public Accountants
德豪嘉信會計師事務所有限公司

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111 Connaught Road Central
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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 (the "Group") and balance sheet of the Company as of 31 December 2005 and the related consolidated statements of income, cash flow and changes in shareholders' equity for the year then ended. These financial statements set out on pages 29 to 79 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly in all material respects the financial position of the Company and of the Group as of 31 December 2005, and of the Group's results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 29 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Turnover	4	**118,208**	185,639
Cost of sales		**(97,241)**	(129,517)
Gross profit		**20,967**	56,122
Other operating income	5	**10,899**	1,351
Distribution costs		**(11,493)**	(10,067)
Administrative expenses		**(45,459)**	(27,471)
(Loss)/profit from operations	6	**(25,086)**	19,935
Share of results of associates			
– Share of profits/(losses) of associates		**2,030**	(1,558)
– Share of tax of associates		**(62)**	–
		1,968	(1,558)
Finance costs	10	**(4,427)**	(4,610)
Interest income		**257**	363
(Loss)/profit before tax		**(27,288)**	14,130
Tax expense	11	**(400)**	(3,609)
(Loss)/profit for the year		**(27,688)**	10,521
Attributable to:			
– Equity holders of the Company		**(28,348)**	10,296
– Minority interests		**660**	225
		(27,688)	10,521
Dividend	12	**–**	–
(Loss)/earnings per share	13		
– Basic (RMB)		**(0.083)**	0.030

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	14	7,519	7,606
Intangible assets	15	6,630	11,895
Interests in associates	17	7,580	6,300
Long-term prepayments		1,459	396
Total non-current assets		23,188	26,197
Current assets			
Inventories	18	2,196	10,062
Contract work in progress		15,667	14,743
Trade and notes receivables	19	66,171	103,340
Prepayments and other receivables	20	90,157	90,617
Amounts due from associates	28	1,733	1,527
Pledged bank deposits	21	19,848	11,020
Bank balances and cash		55,955	39,804
Total current assets		251,727	271,113
Total assets		274,915	297,310
Liabilities			
Current liabilities			
Trade and notes payables	22	45,643	44,672
Receipt in advance from customers		10,773	10,060
Other payables and accruals		10,173	13,536
Current tax liabilities		1,589	3,245
Short-term borrowings	23	74,000	66,500
Total current liabilities		142,178	138,013
TOTAL NET ASSETS		132,737	159,297
Capital and reserves attributable to equity holders of the Company			
Share capital	25	33,958	33,958
Share premium		71,988	71,988
Statutory surplus reserve		6,910	6,009
Statutory public welfare reserve		3,657	3,657
Retained earnings		4,668	33,917
		121,181	149,529
Minority interests		11,556	9,768
TOTAL EQUITY		132,737	159,297

The financial statements on pages 29 to 79 were approved and authorised for issue by the Board of Directors on 29 March 2006 and were signed on its behalf by:

CHEN PING
Director

XUE SHI CHENG
Director

Balance Sheet

As at 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Assets			
Non-current assets			
Property, plant and equipment	14	**4,595**	4,629
Intangible assets	15	**6,262**	11,895
Investments in subsidiaries	16	**36,895**	37,959
Investments in associates	17	**4,400**	4,400
Long-term prepayments		**1,459**	396
Total non-current assets		**53,611**	59,279
Current assets			
Inventories	18	–	2,297
Contract work in progress		**13,670**	14,098
Trade and notes receivables	19	**54,365**	88,361
Prepayments and other receivables	20	**65,433**	55,293
Amounts due from subsidiaries	28	**10,334**	14,622
Amounts due from associates	28	**1,701**	1,527
Pledged bank deposits	21	**19,848**	5,020
Bank balances and cash		**42,887**	29,911
Total current assets		**208,238**	211,129
Total assets		**261,849**	270,408
Liabilities			
Current liabilities			
Trade and notes payables	22	**42,854**	35,226
Receipt in advance from customers		**8,732**	9,210
Other payables and accruals		**7,709**	11,058
Amount due to subsidiaries	28	**14,200**	914
Current tax liabilities		**351**	2,809
Short-term borrowings	23	**71,000**	66,500
Total current liabilities		**144,846**	125,717
TOTAL NET ASSETS		**117,003**	144,691
Capital and reserves attributable to equity holders of the Company			
Share capital	25	**33,958**	33,958
Share premium	26	**71,988**	71,988
Statutory surplus reserve	26	**5,361**	5,148
Statutory public welfare reserve	26	**2,573**	2,573
Retained earnings	26	**3,123**	31,024
TOTAL EQUITY		**117,003**	144,691

CHEN PING
Director

XUE SHI CHENG
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 *(Note 26(a))*	Statutory public welfare reserve RMB'000 *(Note 26(b))*	Retained earnings RMB'000	Proposed final dividends RMB'000	Equity attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
Changes in equity									
At 1 January 2004	33,958	71,988	4,719	3,012	25,556	3,396	142,629	6,723	149,352
Profit for the year	–	–	–	–	10,296	–	10,296	225	10,521
Dividends paid	–	–	–	–	–	(3,396)	(3,396)	–	(3,396)
Capital contributions from minority interests	–	–	–	–	–	–	–	3,000	3,000
Dividend paid to minority interests	–	–	–	–	–	–	–	(180)	(180)
Transfer of retained earnings	–	–	1,290	645	(1,935)	–	–	–	–
At 31 December 2004	33,958	71,988	6,009	3,657	33,917	–	149,529	9,768	159,297
Loss for the year	–	–	–	–	(28,348)	–	(28,348)	660	(27,688)
Capital contributions from minority interests	–	–	–	–	–	–	–	2,207	2,207
Dividend paid to minority interests	–	–	–	–	–	–	–	(842)	(842)
Release of loss of subsidiaries upon partial disposal of the subsidiaries	–	–	–	–	–	–	–	(237)	(237)
Transfer of retained earnings	–	–	901	–	(901)	–	–	–	–
At 31 December 2005	**33,958**	**71,988**	**6,910**	**3,657**	**4,668**	**–**	**121,181**	**11,556**	**132,737**

Consolidated Cash Flow Statements

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Operating activities			
(Loss)/profit before tax		**(27,288)**	14,130
Adjustments for:			
Interest expenses		**4,294**	4,562
Interest income		**(257)**	(363)
Impairment loss on loans and receivables		**9,749**	–
Depreciation of property, plant and equipment		**2,400**	2,292
Amortisation of intangible assets		**5,612**	4,245
Share of results of associates		**(1,968)**	1,558
Write-down of inventories to net realisable value		**3,629**	–
Gain on disposal of an associate		**–**	(100)
Gain on disposal of certain business	*30*	**(5,014)**	–
(Gain)/loss on disposal of property, plant and equipment		**(2)**	24
Gain on partial disposal of subsidiaries		**(251)**	–
Operating profit before changes in working capital and provisions		**(9,096)**	26,348
Decrease/(increase) in inventories		**4,237**	(524)
(Increase)/decrease in contract work in progress		**(924)**	7,487
Decrease/(increase) in trade and notes receivables		**34,824**	(42,791)
Increase in prepayments and other receivables		**(5,176)**	(31,033)
Decrease/(increase) in amounts due from associates		**299**	(436)
(Increase)/decrease in long-term prepayment		**(1,063)**	22
Increase in trade and notes payables		**971**	8,456
Increase in receipt in advance from customers		**713**	1,553
(Decrease)/increase in other payables and accruals		**(3,564)**	9,784
Cash from/(used in) operations		**21,221**	(21,134)
Interest received		**257**	363
Interest paid		**(4,294)**	(4,562)
PRC income tax paid		**(2,056)**	(1,227)
Net cash from/(used in) operating activities		**15,128**	(26,560)
Investing activities			
Acquisition of a subsidiary, net of cash acquired	*29*	**(424)**	–
Proceeds from partial disposal of subsidiaries		**2,100**	–
Proceeds from disposal of certain business, net of cash received	*30*	**3,500**	–
Purchase of property, plant and equipment		**(2,172)**	(1,963)
Proceeds from disposal of property, plant and equipment		**6**	152
Purchases of intangible assets		**–**	(11,360)
Investment in an associate		**–**	(2,000)
Proceeds from disposal of an associate		**–**	100
Dividends received from an associate		**183**	–
(Increase)/decrease in pledged bank deposits		**(8,828)**	599
Net cash used in investing activities		**(5,635)**	(14,472)

Consolidated Cash Flow Statements (Cont'd)

For the year ended 31 december 2005

	2005 RMB'000	2004 RMB'000
Financing activities		
New bank borrowings raised	**74,000**	206,000
Repayment of bank borrowings	**(66,500)**	(204,500)
Dividends paid to minority interests	**(842)**	(180)
Dividends paid to equity shareholders	**–**	(3,396)
Net cash from/(used in) financing activities	**6,658**	(2,076)
Net increase/(decrease) in cash and cash equivalents	**16,151**	(43,108)
Cash and cash equivalents at beginning of year	**39,804**	82,912
Cash and cash equivalents at end of year, representing bank balances and cash	**55,955**	39,804

1. GENERAL

Zheda Lande Scitech Limited (the "Company") is incorporated in the People's Republic of China (the "PRC") as a joint stock company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The registered office and principal place of business of the Company is located at 4th Floor, No. 108 Gu Cui Road, Hangzhou City, PRC.

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

The financial statements are presented in Chinese Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted a number of new and revised International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations (collectively the "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new IFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new IFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current accounting periods are prepared and presented.

The impact of the changes in accounting policies is discussed below.

IFRS 3 "Business Combinations"

Goodwill

In previous years, goodwill arising on acquisitions was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

In accordance with the relevant transitional provisions under IFRS 3 and IAS 36 "Impairment of assets", the Group has applied the new policy in respect of goodwill prospectively from 1 January 2005. Comparative figures for 2004 have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of goodwill. Goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with IAS 36.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

IAS 32 "Financial Instruments: Disclosures and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"

In the current year, the Group has applied IAS 32 "Financial Instruments: Disclosureand Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". IAS 32 requires retrospective application. IAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of IAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of IAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities in accordance with the requirement of IAS 39. Under IAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in IAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

IAS 17 "Leases"

Owner-occupied Leasehold Interest in Land

In the current year, the Group has applied IAS 17 "Leases". Under IAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

IAS 17 "Consolidated financial statements and accounting for investments in subsidiaries" and IAS 28 "Accounting for investments in associates"

Investments in subsidiaries and associates

In previous yeas, investments in subsidiaries and associates were accounted for using equity method in the balance sheet of the Company. In the current year, the Company has applied IAS 27 "Consolidated financial statements and accounting for investments in subsidiaries" and IAS 28 "Accounting for investments in associates", under which investments in subsidiaries and associates should be carried at cost in the balance sheet of the Company. This change in accounting policy has been applied retrospectively. As a result of this change in policy, the balance of retained earnings at 1 January 2004 has been decreased by RMB7,741,000, representing the cumulative effect of the change in policy on the results of the Company for periods prior to 1 January 2004. The balances of the investments in subsidiaries and investments in associates at 31 December 2004 have been decreased by RMB6,743,000 and increased by RMB1,968,000 respectively, representing the effect of the derecognition of share of post-acquisition profits/ losses of the subsidiaries and associates at that date.

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied, the following new standards and interpretations and amendments that were issued but are not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
IAS 21 (Amendment)	Net investment in foreign operation[2]
IAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
IAS 39 (Amendment)	The fair value option[2]
IAS 39 & IFRS 4 (Amendments)	Financial guarantee contracts[2]
IFRS 6	Exploration for and evaluation of mineral resources[2]
IFRS 7	Financial instruments: Disclosures[1]
IFRIC – INT 4	Determining whether an arrangement contains a lease[2]
IFRIC – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
IFRIC – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
IFRIC – INT 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies[4]
IFRIC – INT 8	Scope of IFRS 2[5]
IFRIC – INT 9	Reassessment of Embedded Derivatives[6]

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

Potential impact arising on the new accounting standards not yet effective (Cont'd)

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.
[5] Effective for annual periods beginning on or after 1 May 2006.
[6] Effective for annual periods beginning on or after 1 June 2006.

The Group has considered these standards, interpretations and amendments but does not expect they will have material effect on how the results of the operations and financial position of the Group are prepared and presented.

3. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs and IFRIC interpretations") issued by the IASB and the applicable disclosure required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are initially measured at fair value.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

3. ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of changes in equity.

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

3. ACCOUNTING POLICIES (Cont'd)

Associates (Cont'd)

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination described above.

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Financial Instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade and notes receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

3. ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

(i) Financial assets (Cont'd)

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities: Other financial liabilities include the following items:

- Trade and notes payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank borrowings are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) Derecognition

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

3. ACCOUNTING POLICIES (Cont'd)

Retirement benefits

Contributions to state-managed defined contribution pension schemes are charged to the income statement in the year to which they relate.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement.

Internally generated intangible assets (research and development costs)

Expenditure on internally developed intangible assets is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within the administrative expenses line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost and subsequently carried at depreciated cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provided to write off the carrying value of items over their expected useful economic lives as follows:

Leasehold building	Over lease terms of 66 years
Leasehold improvements	3 years
Motor vehicles	5 years
Office furniture, fixtures and other equipment	5 years

3. ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on a first in, first out basis.

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.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

3. ACCOUNTING POLICIES (Cont'd)

Deferred taxation (Cont'd)

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Operating leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Government grants

Government grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the Group.

Where retention of a government grant is dependent on the Group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention has been satisfied, the deferred income balance is released to the income statement or netted against the asset purchased as appropriate.

3. ACCOUNTING POLICIES (Cont'd)

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.

(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 income is recognised when the right to receive payment is established.

(vi) Commission income

Commission income is recognised when the goods on which the commission is calculated are delivered.

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 segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Primary reporting segment - business segment

The Group comprises the following main business segments:

(i) Provision of telecommunication solutions;

(ii) Trading of hardware and computer software; and

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

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

(a) Primary reporting segment - business segment (Cont'd)

	Provision of telecommunication solutions		Trading of hardware and computer software		Other related service		Consolidated	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Segment turnover	**36,185**	71,272	**59,925**	97,289	**22,098**	17,078	**118,208**	185,639
Segment results	**3,499**	23,969	**(5,967)**	15,199	**11,942**	6,887	**9,474**	46,055
Unallocated revenue							**10,899**	1,351
Unallocated expenses							**(45,459)**	(27,471)
(Loss)/profit from operations							**(25,086)**	19,935
Share of results of associates	**–**	(909)	**–**	–	**1,968**	(649)	**1,968**	(1,558)
Finance costs							**(4,427)**	(4,610)
Interest income							**257**	363
(Loss)/profit before tax							**(27,288)**	14,130
Tax expense							**(400)**	(3,609)
(Loss)/profit for the year							**(27,688)**	10,521
Segment assets	**55,962**	77,109	**36,956**	86,570	**9,671**	7,675	**102,589**	171,354
Interests in associates	**–**	889	**–**	–	**7,580**	5,411	**7,580**	6,300
Unallocated assets							**164,746**	119,656
Total assets							**274,915**	297,310
Segment liabilities	**19,689**	18,498	**34,157**	33,032	**2,569**	3,203	**56,415**	54,733
Unallocated liabilities							**85,763**	83,280
Total liabilities							**142,178**	138,013
Other segment information:								
Capital expenditures	**1,737**	12,568	**–**	120	**435**	635	**2,172**	13,323
Depreciation and amorisation	**7,379**	5,743	**–**	581	**633**	213	**8,012**	6,537
Impairment loss on loans and receivables	**821**	–	**1,507**	–	**2,980**	–	**5,308**	–
Unallocated impairment loss on loans and receivables							**4,441**	–
Total impairment loss on loans and receivables							**9,749**	–
Write-down of inventories to net realisable value	**–**	–	**3,629**	–	**–**	–	**3,629**	–

(b) Secondary reporting segment - geographical segment

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

5. OTHER OPERATING INCOME

	Group 2005 RMB'000	2004 RMB'000
Subsidy income		
Net VAT refund *(Note)*	**4,210**	620
Commission income	**352**	605
Gain on disposal of property, plant and equipment	**2**	–
Gain on disposal of an associate	**–**	100
Gain on partial disposal of subsidiaries	**251**	–
Gain on disposal of certain business *(Note 30)*	**5,014**	–
Consultancy income	**800**	–
Others	**270**	26
	10,899	1,351

Note:

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% on sales of self-developed software. VAT refund is recorded as income upon receipt.

6. (LOSS)/PROFIT FROM OPERATIONS

This has been arrived at after charging:

	Group 2005 RMB'000	2004 RMB'000
Amortisation of intangible assets	**5,612**	4,245
Depreciation of property, plant and equipment	**2,400**	2,292
Loss on disposal of property, plant and equipment	**–**	24
Impairment loss on loans and receivables	**9,749**	–
Write-down of inventories to net realisable value (included in costs of sales)	**3,629**	–
Research and development costs	**2,242**	330
Operating lease expense for office premises	**1,462**	1,749
Cost of inventories recognised as an expense	**97,241**	129,517
Auditors' remuneration	**380**	322
Net foreign exchange losses	**3**	–
Staff costs *(Note 7)*	**13,003**	9,590

7. STAFF COSTS

	Group 2005 RMB'000	2004 RMB'000
Staff costs (excluding directors and supervisors) comprise:		
Salaries and other benefits	**10,307**	7,285
Retirement benefits scheme contributions	**2,696**	2,305
	13,003	9,590

8. REMUNERATIONS OF DIRECTORS AND SUPERVISORS

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

	Group 2005 RMB'000	2004 RMB'000
Fees	**20**	20
Salaries and other benefits	**625**	695
Retirement benefits scheme contributions	**12**	12
	657	727

8. REMUNERATIONS OF DIRECTORS AND SUPERVISORS (Cont'd)

Details of remunerations of directors and supervisors for the year ended 31 December 2005 are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Chen Ping	–	250	–	250
Mr. Zhao Jian	–	10	–	10
Mr. Xue Shi Cheng	20	180	–	200
Mr. Chen Chun	–	20	–	20
Mr. Shi Lie	–	10	–	10
Mr. Hu Yang Jun	–	20	–	20
Ms. Pan Lichun	–	10	–	10
Independent non-executive directors:				
Mr. Cai Xiao Fu	–	10	–	10
Mr. Zhang De Xin	–	10	–	10
Mr. Gu Yu Lin	–	10	–	10
Supervisors:				
Mr. Fu Liang Yuan	–	3	–	3
Mr. Huo Zhong Hui	–	50	6	56
Ms. Liu Cui Yu	–	36	6	42
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Total	20	625	12	657

8. REMUNERATIONS OF DIRECTORS AND SUPERVISORS (Cont'd)

Details of remuneration of directors and supervisors remuneration for the year ended 31 December 2004 are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Chen Ping	–	250	–	250
Mr. Zhao Jian	–	20	–	20
Mr. Xue Shi Cheng	20	180	–	200
Mr. Chen Chun	–	40	–	40
Mr. Hu Yang Jun	–	80	–	80
Independent non-executive directors:				
Mr. Cai Xiao Fu	–	10	–	10
Mr. Zhang De Xin	–	10	–	10
Mr. Gu Yu Lin	–	10	–	10
Supervisors:				
Mr. Fu Liang Yuan	–	3	–	3
Mr. Huo Zhong Hui	–	50	6	56
Ms. Liu Cui Yu	–	36	6	42
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Total	20	695	12	727

No directors or supervisors waived any emoluments for the year.

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.

9. FIVE HIGHEST PAID INDIVIDUALS

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

	Group	
	2005	2004
	RMB'000	RMB'000
Fees	**20**	20
Salaries and other benefits	**730**	780
Retirement benefits scheme contributions	**36**	12
	786	812

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

	Number	
	2005	2004
Directors	**2**	2
Employees	**3**	3
	5	5

The emoluments of each of these individuals for the year were less than RMB1,000,000.

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.

10. FINANCE COSTS

	Group	
	2005	2004
	RMB'000	RMB'000
Interest expenses on bank borrowings wholly repayable within five years	**4,294**	4,562
Others	**133**	48
	4,427	4,610

11. TAX EXPENSE

	Group 2005 RMB'000	2004 RMB'000
Current tax expense		
PRC Enterprises Income Taxes ("EIT") on profit for the year	**1,389**	4,408
Adjustment for overprovision in prior years	**(989)**	(799)
	400	3,609

The Company and certain of its subsidiaries were subject to EIT at rate of 15% (2004: 15%) as they were classified as Advanced and New Technology Enterprise. The remaining subsidiaries were taxed at the statutory rate of 33% of their respective assessable income for the year ended 31 December 2005.

The tax expenses for the year can be reconciled to the (loss)/profit per the consolidated income statement is as follows:

	Group 2005 RMB'000	2004 RMB'000
(Loss)/profit before tax	**(27,288)**	14,130
Tax calculated at the domestic income tax rate of 15% (2004: 15%)	**(4,093)**	2,120
Tax effect of expenses not deductible and income not taxable for tax purpose	**2,707**	940
Tax effect of tax losses not recognised	**3,248**	716
Effect of different tax rates of certain subsidiaries	**390**	632
Tax effect of tax losses utilised	**(863)**	–
Overprovision in respect of prior years	**(989)**	(799)
Tax expense	**400**	3,609

12. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

13. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2005	2004
Net (loss)/profit attributable to equity holders of the Company (RMB'000)	**(28,348)**	10,296
Weighted average number of ordinary shares in issue (thousands)	**339,577**	339,577
Basic (loss)/earnings per share (RMB)	**(0.083)**	0.030

No diluted (loss)/earnings per share has been presented for both years as there were no potential ordinary shares outstanding during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost					
At 1 January 2005	–	3,474	2,574	8,585	14,633
Additions	1,492	–	–	680	2,172
Acquired through acquisition of a subsidiary	–	–	58	310	368
Disposed through disposals of certain business	–	–	–	(253)	(253)
Disposals	–	–	–	(8)	(8)
At 31 December 2005	**1,492**	**3,474**	**2,632**	**9,314**	**16,912**
Depreciation					
At 1 January 2005	–	2,575	880	3,572	7,027
Provided for the year	–	421	370	1,609	2,400
Acquired through acquisition of a subsidiary	–	–	7	80	87
Eliminated on disposals of certain business	–	–	–	(117)	(117)
Eliminated on disposals	–	–	–	(4)	(4)
At 31 December 2005	**–**	**2,996**	**1,257**	**5,140**	**9,393**
Net book value					
At 31 December 2005	**1,492**	**478**	**1,375**	**4,174**	**7,519**

The leasehold land and building is located in the PRC and held under medium-term lease.

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Group

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost				
At 1 January 2004	2,698	2,458	7,799	12,955
Additions	776	299	888	1,963
Disposals	–	(183)	(102)	(285)
At 31 December 2004	3,474	2,574	8,585	14,633
Depreciation				
At 1 January 2004	2,131	694	2,019	4,844
Provided for the year	444	263	1,585	2,292
Eliminated on disposals	–	(77)	(32)	(109)
At 31 December 2004	2,575	880	3,572	7,027
Net book value				
At 31 December 2004	899	1,694	5,013	7,606

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost					
At 1 January 2005	–	3,465	1,955	4,788	10,208
Additions	1,492	–	–	147	1,639
Disposed through disposals of certain business	–	–	–	(253)	(253)
At 31 December 2005	**1,492**	**3,465**	**1,955**	**4,682**	**11,594**
Depreciation					
At 1 January 2005	–	2,566	729	2,284	5,579
Provided for the year	–	421	293	823	1,537
Eliminated on disposals of certain business	–	–	–	(117)	(117)
At 31 December 2005	**–**	**2,987**	**1,022**	**2,990**	**6,999**
Net book value					
At 31 December 2005	**1,492**	**478**	**933**	**1,692**	**4,595**

The leasehold land and building is located in the PRC and held under medium-term lease.

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost				
At 1 January 2004	2,689	2,138	4,458	9,285
Additions	776	–	432	1,208
Disposals	–	(183)	(102)	(285)
At 31 December 2004	3,465	1,955	4,788	10,208
Depreciation				
At 1 January 2004	2,122	611	1,457	4,190
Provided for the year	444	195	859	1,498
Eliminated on disposals	–	(77)	(32)	(109)
At 31 December 2004	2,566	729	2,284	5,579
Net book value				
At 31 December 2004	899	1,226	2,504	4,629

15. INTANGIBLE ASSETS

Group

	Goodwill RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
Cost				
At 1 January 2005	246	9,274	11,360	20,880
Elimination of accumulated amortisation upon application of IFRS 3 *(Note 2)*	(101)	–	–	(101)
Additions *(Note 29)*	368	–	–	368
Disposals	(21)	–	–	(21)
At 31 December 2005	**492**	**9,274**	**11,360**	**21,126**
Amortisation				
At 1 January 2005	101	6,991	1,893	8,985
Elimination of accumulated amortisation upon application of IFRS 3 *(Note 2)*	(101)	–	–	(101)
Provided for the year	–	1,825	3,787	5,612
At 31 December 2005	**–**	**8,816**	**5,680**	**14,496**
Net book value				
At 31 December 2005	**492**	**458**	**5,680**	**6,630**

15. INTANGIBLE ASSETS (Cont'd)

Group

	Goodwill RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
Cost				
At 1 January 2004	246	9,274	–	9,520
Additions	–	–	11,360	11,360
At 31 December 2004	246	9,274	11,360	20,880
Amortisation				
At 1 January 2004	52	4,688	–	4,740
Provided for the year	49	2,303	1,893	4,245
At 31 December 2004	101	6,991	1,893	8,985
Net book value				
At 31 December 2004	145	2,283	9,467	11,895

15. INTANGIBLE ASSETS (Cont'd)

Company

	Goodwill RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
Cost				
At 1 January 2005	246	9,274	11,360	20,880
Elimination of accumulated amortisation upon application of IFRS 3 *(Note 2)*	(101)	–	–	(101)
Disposals	(21)	–	–	(21)
At 31 December 2005	**124**	**9,274**	**11,360**	**20,758**
Amortisation				
At 1 January 2005	101	6,991	1,893	8,985
Elimination of accumulated amortisation upon application of IFRS 3 *(Note 2)*	(101)	–	–	(101)
Provided for the year	–	1,825	3,787	5,612
At 31 December 2005	**–**	**8,816**	**5,680**	**14,496**
Net book value				
At 31 December 2005	**124**	**458**	**5,680**	**6,262**

15. INTANGIBLE ASSETS (Cont'd)

Company

	Goodwill RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
Cost				
At 1 January 2004	246	9,274	–	9,520
Additions	–	–	11,360	11,360
At 31 December 2004	246	9,274	11,360	20,880
Amortisation				
At 1 January 2004	52	4,688	–	4,740
Provided for the year	49	2,303	1,893	4,245
At 31 December 2004	101	6,991	1,893	8,985
Net book value				
At 31 December 2004	145	2,283	9,467	11,895

Self-developed software are internally generated. Computer software was acquired from third parties. Goodwill is created through business combinations.

The above intangible assets have definite useful lives. Such intangible assets, apart from goodwill, are amortised on a straight-line basis over 3 years.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	RMB'000	RMB'000
		(Restated)
Unlisted investments, at cost	**36,895**	37,959

16. INVESTMENTS IN SUBSIDIARIES (Cont'd)

The subsidiaries of the Company, all of which have been included in these consolidated financial statements, are as follows:

Name	Place of registration/ operations	Attributable equity interest of the Company		Paid-in capital	Principal activities
		Direct	Indirect		
Chengdu Lande E & I Technology Company Limited 成都蘭德電子信息技術有限公司	PRC	55%	–	RMB1,000,000	Provision of telecommunication related services
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 related services
Zhejiang Lande Xinyi Information Technology Company Limited 浙江蘭德新易信息技術有限公司	PRC	70%	–	RMB5,000,000	Provision of telecommunication solutions and trading of hardware and computer software
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 other related services, and trading of hardware and computer software

16. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of registration/ operations	Attributable equity interest of the Company Direct	Attributable equity interest of the Company Indirect	Paid-in capital	Principal activities
Zhejiang Sichuang Information Technology Company Limited 浙江思創信息技術有限公司	PRC	90%	–	RMB30,000,000	Trading of hardware and computer software and provision of telecommunication related services
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 related services
Zhejiang Lande Congheng Network Service Company Limited 浙江蘭德縱橫網絡技術有限公司	PRC	60%	–	RMB5,000,000	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Fuzhou Truease Digital Scitech and Technology Company Limited ("Fuzhou Truease") 福州真易數碼科技有限公司	PRC	–	63%	RMB1,000,000	Provision of telecommunication related services

Note:

All subsidiaries are limited liability company.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000 (Restated)
Unlisted investments, at cost	**8,400**	8,400	**4,400**	4,400
Share of post-acquisition losses, net of dividends received	**(820)**	(2,100)	**–**	–
	7,580	6,300	**4,400**	4,400

Included in the cost of investments in associates is goodwill of RMB2,498,000 (2004: RMB2,498,000) arising on acquisition of an associate in prior years. Until 31 December 2004, goodwill had been amortised over 5 years.

The following entities meet the definition of an associate and have been equity accounted for in the consolidated financial statements:

Name	Place of registration/ operation	Attributable equity interest of the Group	Paid-in capital	Principal activities
Guangzhou 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	24%	RMB10,000,000	Trading of electronic products, computer hardware and telecommunication network products and other related services

17. INTERESTS IN ASSOCIATES (Cont'd)

Name	Place of registration/ operation	Attributable equity interest of the Group	Paid-in capital	Principal activities
Hangzhou Yintong Digital Communication Technology Company Limited 杭州銀通數碼信息技術有限公司	PRC	39.6%	RMB3,000,000	Development of computer applications and trading of computer hardware

The summarised financial information in respect of the Group's associates is set out below:

	Group 2005 RMB'000	Group 2004 RMB'000
Total assets	**21,933**	18,998
Total liabilities	**(4,909)**	(4,639)
Net assets	**17,024**	14,359
Group's share of net assets of associates	**5,082**	3,802
Revenue	**15,671**	6,166
Profit/(loss) for the year	**4,771**	(3,540)
Group's share of results of associates for the year	**1,968**	(1,558)

18. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Computer software and hardware	**2,196**	10,062	**–**	2,297

19. TRADE AND NOTES RECEIVABLES

An aging analysis of the trade and notes receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than one year	**51,721**	88,045	**41,504**	76,116
Over one year but less than two years	**15,731**	13,467	**14,419**	10,434
Over two years but less than three years	**3,360**	2,376	**3,100**	2,359
Over three years	**4,150**	5,858	**4,133**	5,858
	74,962	109,746	**63,156**	94,767
Less: Accumulated impairment	**(8,791)**	(6,406)	**(8,791)**	(6,406)
	66,171	103,340	**54,365**	88,361

There were no specific credit terms granted to the customers.

20. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayment to suppliers	**7,698**	22,013	**12,687**	11,325
Due from third parties	**39,995**	48,336	**32,259**	30,039
Due from related parties	**34,148**	10,329	**17,847**	7,070
Due from minority shareholders	**11,522**	3,379	**5,798**	3,000
Advances to employees	**3,462**	2,517	**983**	–
Others	**696**	4,043	**300**	3,859
	97,521	90,617	**69,874**	55,293
Less: Accumulated impairment for:				
Prepayment to suppliers	**(2,923)**	–	**–**	–
Due from third parties	**(1,901)**	–	**(1,901)**	–
Due from related parties	**(2,540)**	–	**(2,540)**	–
	(7,364)	–	**(4,441)**	–
	90,157	90,617	**65,433**	55,293

The amounts due from third parties, related parties and minority shareholders are unsecured, interest-free and repayable on demand.

21. PLEDGED BANK DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**19,848**	11,020	**19,848**	5,020

At 31 December 2005, the Group's pledged bank deposits of RMB18,245,000 (2004: RMB5,020,000) and RMB1,603,000 (2004: Nil) were pledged as security for the Group's notes payables facilities and the Group's contracts for provision of telecommunication solutions respectively. At 31 December 2004, RMB6,000,000 was also pledged to bank for granting banking facilities to a related company, Hangzhou Yixun Information Technology Company Limited (杭州奕訊信息技術有限公司), in which Mr. Chen Wei, a senior management of the Company, had beneficial interests.

At 31 December 2005, the Company's pledged bank deposits of RMB18,245,000 (2004: RMB5,020,000) and RMB1,603,000 (2004: Nil) were pledged as security for the Company's notes payables facilities and the Company's contracts for provision of telecommunication solutions respectively.

22. TRADE AND NOTES PAYABLES

An aging analysis of the trade and notes payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than one year	**41,761**	44,282	**39,387**	34,992
Over one year but less than two years	**3,690**	390	**3,338**	234
Over two years but less than three years	**168**	–	**105**	–
Over three years	**24**	–	**24**	–
	45,643	44,672	**42,854**	35,226

23. SHORT-TERM BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unsecured bank loans repayable within one year	**74,000**	66,500	**71,000**	66,500

The bank loans are denominated in RMB.

The bank loans include approximately RMB58,000,000 (2004: RMB66,500,000) fixed-rate borrowings which carry interest ranging from 6.1% to 6.7% (2004: 5.3% to 5.9%) per annum. The remaining bank loans are variable-rate borrowings which carry interest ranging from 4.6% to 5.9% (2004: Nil) per annum.

	Group and Company	
	2005	2004
	RMB'000	RMB'000
The bank loans are guaranteed by:		
Chen Ping	**25,000**	–
Chen Ping and his wife, Yang Jie, jointly	**13,000**	–
Zhejiang University Innovation Information Holdings Company Limited (浙江浙大網新信息控股有限公司) *(Note (a))*	**33,000**	20,000
Tong He Investment Company Limited (通和置業投資有限公司) *(Note (b))*	**–**	20,000
	71,000	40,000

Notes:

(a) This is a substantial shareholder of the Company during the year ended 31 December 2005.

(b) This is a subsidiary of a corporate shareholder of the Company during the year ended 31 December 2004.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Credit risk
- Currency risk
- Interest rate risk
- Liquidity risk
- Fair values of financial assets and financial liabilities

Policy for managing these risks is set by the directors of the Group. The policy for each of the above risks is described in more detail below.

(a) Credit risks

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in the PRC. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and directors of the Company consider the credit risk for such is minimal.

(b) Currency risk

The Group's principal businesses are conducted and recorded in RMB. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

(c) Interest rate risk

The Group's exposure to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks and pledged bank deposits which are all short term in nature. Interest bearing financial liabilities are mainly bank loans with fixed rates and repayable within one year. Therefore, any future variations in interest rate will not have a significant impact on the results of the Group.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Cont'd)

(d) Liquidity risk

Internally generated cash flow and bank loans are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to fixed interests rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

(e) Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amounts.

25. SHARE CAPITAL

At 31 December 2005, the details of the Company's share capital were as follows:

	Number of shares		Amount	
	2005	2004	**2005**	2004
	(in thousands)		**RMB'000**	RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.10 each held by promoters	**227,452**	227,452	**22,745**	22,745
Overseas public shares ("H" shares) with par value of RMB0.10 each	**112,125**	112,125	**11,213**	11,213
	339,577	339,577	**33,958**	33,958

26. RESERVES

Company

	Share premium RMB'000	Statutory surplus reserve RMB'000 *(Note (a))*	Statutory public welfare reserve RMB'000 *(Note (b))*	Retained earnings RMB'000 (Restated)	Proposed final dividends RMB'000	Total RMB'000
At 1 January 2004						
– as originally stated	71,988	4,118	2,059	27,110	3,396	108,671
– change in accounting policy with respect to investments in subsidiaries and associates (IAS 27 & 28)	–	–	–	(7,741)	–	(7,741)
– as restated	71,988	4,118	2,059	19,369	3,396	100,930
Profit for the year	–	–	–	13,199	–	13,199
Dividends paid	–	–	–	–	(3,396)	(3,396)
Transfer of retained earnings	–	1,030	514	(1,544)	–	–
At 31 December 2004	71,988	5,148	2,573	31,024	–	110,733
Loss for the year	–	–	–	(27,688)	–	(27,688)
Transfer of retained earnings	–	213	–	(213)	–	–
At 31 December 2005	**71,988**	**5,361**	**2,573**	**3,123**	**–**	**83,045**

Notes:

(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.

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.

26. RESERVES (Cont'd)

Notes: (Cont'd)

(a) Statutory surplus reserve (Cont'd)

For the year ended 31 December 2005, the directors of the Company have recommended that 10% (2004: 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 previous years, 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 also required to appropriate 5% - 10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare reserve to be utilised for employees' common welfare.

During the year ended 31 December 2005, the Company Law in the PRC waived the requirement of appropriation to this reserve and hence no appropriation of such reserve was made by the Group for the year.

For the year ended 31 December 2004, the directors of the Company have recommended that 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 reserve 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.

27. UNPROVIDED DEFERRED TAX

The Group has unused tax losses and deductible temporary difference amounted to RMB36,667,000 (2004: RMB4,993,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. The unrecognised tax losses will expire in five year's time.

The Company has unused tax losses and deductible temporary difference amounted to RMB26,087,000 (2004: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. The unrecognised tax losses will expire in five year's time.

28. AMOUNTS DUE FROM (TO) SUBSIDIARIES AND ASSOCIATES

The amounts are unsecured, interest-free and repayable on demand.

29. ACQUISITION OF A SUBSIDIARY

On 12 December 2005, the Group acquired 63% of the paid-in capital of Fuzhou Truease whose principal activity is the provision of telecommunication related services.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Fair value of assets acquired	**2005 RMB'000**	2004 RMB'000
Property, plant and equipment	**281**	–
Trade receivables	**40**	–
Prepayments and other receivables	**78**	–
Bank balances and cash	**276**	–
Other payables and accruals	**(201)**	–
	474	–
Minority interests	**(142)**	–
	332	–
Goodwill *(Note 15)*	**368**	–
Total consideration is satisfied by cash	**700**	–
Net cash outflow arising on acquisition:		
Cash consideration	**(700)**	–
Bank balances and cash acquired	**276**	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**(424)**	–

The goodwill arising on the acquisition of Fuzhou Truease is attributable to the anticipated profitability of the subsidiary arising from the provision of telecommunication related services.

Fuzhou Truease contributed RMB178,000 to the Group's turnover and loss of RMB49,000 to the Group's loss for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed in 1 January 2005, total Group turnover for the year would have been RMB119,564,000, and loss for the year would have been RMB27,880,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

30. DISPOSAL OF CERTAIN BUSINESS

During the year, the Group disposed of certain divisions in the business of provision of telecommunication solutions and telecommunication value-added services. The relevant assets disposed at the date of disposal were as follows:

	2005 RMB'000	2004 RMB'000
Assets disposed of		
Property, plant and equipment	136	–
Gain on disposal of certain business (Note 5)	5,014	–
Total consideration	5,150	–
Satisfied by:		
Cash consideration received	3,500	–
Cash consideration receivable included in prepayments and other receivables	1,650	–
	5,150	–

31. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at 31 December 2005.

32. OPERATING LEASE ARRANGEMENTS

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

The total future minimum lease payments are due as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Not later than one year	1,384	839	1,081	737
Later than one year and not later than five years	1,629	–	1,601	–
	3,013	839	2,682	737

33. RELATED AND CONNECTED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related and connected parties:

	2005 RMB'000	2004 RMB'000
Income from provision of telecommunication related services to a related company *(Note)*	**1,984**	–
Guarantee given by Chen Ping in respect of a bank loan granted to the Group *(Note 23)*	**25,000**	–
Guarantee jointly given by Chen Ping and Yang Jie in respect of a bank loan granted to the Group *(Note 23)*	**13,000**	–
Corporate guarantee given by Zhejiang University Innovation Information Holdings Company Limited in respect of a bank loan granted to the Group *(Note 23)*	**33,000**	20,000
Corporate guarantee given by Tong He investment Company Limited in respect of a bank loan granted to the Group *(Note 23)*	**–**	20,000

The balances with related parties are set out on the balance sheets of the Group and the Company and in the respective notes.

Note:

The related company is a controlling shareholder of a subsidiary of the Company.

Compensation of key management personnel

The remuneration of directors, supervisors and other members of key management during the year was as follows:

	Group and Company	
	2005 RMB'000	2004 RMB'000
Short-term benefits	**1,145**	1,165
Post employment benefits	**60**	48
	1,205	1,213

34. RETIREMENT BENEFIT SCHEMES

The employees of the Group are required to participate in a central pension scheme operated by the local municipal governments. The companies in the Group are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to income statement of approximately RMB2,708,000 (2004: RMB2,317,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. GOVERNMENT GRANTS

Government grants of RMB2,484,000 (2004: RMB1,790,000) have been received in the current year towards certain research and development activities. The amounts have been deducted in reporting research and development costs for the year.

36. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Impairment loss on loans and receivables

The policy for impairment of loans and receivables of the Group is based on the evaluation of collectability and aging analysis of the loans and receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these loans and receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

36. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Write-down of inventories to net realisable value

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items.

37. EVENTS AFTER THE BALANCE SHEE DATE

On 28 February 2006, the Group entered into an agreement to dispose of its interest in an associate with carrying amount of RMB3,925,000 at 31 December 2005 to an independent third party, at a consideration of RMB6,160,000. Gain on disposal of the associate amounted to RMB2,235,000.

Financial Summary

31 December 2005

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**118,208**	185,639	164,551	95,458	63,890
Cost of sales	**(97,241)**	(129,517)	(117,464)	(61,540)	(36,274)
Gross profit	**20,967**	56,122	47,087	33,918	27,616
Other operating income	**10,899**	1,351	4,427	2,673	–
Distribution expenses	**(11,493)**	(10,067)	(12,290)	(5,858)	(2,842)
Administrative expenses	**(45,459)**	(27,471)	(19,172)	(13,558)	(6,781)
(Loss)/profit from operations	**(25,086)**	19,935	20,052	17,175	17,993
Share of results associates	**1,968**	(1,558)	(542)	–	(307)
Finance costs	**(4,427)**	(4,610)	(3,153)	(1,638)	(272)
Interest income	**257**	363	830	534	74
(Loss)/profit before tax	**(27,288)**	14,130	17,187	16,071	17,488
Tax expenses	**(400)**	(3,609)	(785)	(2,847)	(2,987)
(Loss)/profit for the year	**(27,688)**	10,521	16,402	13,224	14,501
Attributable to:					
– Equity holders of the Company	**(28,348)**	10,296	12,240	11,520	14,839
– Minority interests	**660**	225	4,162	1,704	(338)
	(27,688)	10,521	16,402	13,224	14,501
(Loss)/earnings per share					
– Basic (RMB)	**(0.083)**	0.030	0.036	0.038	0.065

ASSETS AND LIABILITIES

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**274,915**	297,310	261,690	193,839	69,311
Total liabilities	**(142,178)**	(138,013)	(112,338)	(59,292)	(33,093)
Minority interests	**(11,556)**	(9,768)	(6,723)	(4,158)	(550)
Shareholders' funds	**121,181**	149,529	142,629	130,389	35,668

Note:

The results of the Group for the year ended 31 December 2001 and the assets and liabilities of the Group as at 31 December 2001 was prepared based on the accountant's report contained in the Company's prospectus dated 24 April 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting (the "**Annual General Meeting**") of Zheda Lande Scitech Limited (the "**Company**") will be held at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the People's Republic of China (the "**PRC**") on Monday, 22 May 2006 at 2:00 p.m. for the following purposes:

1. To pass the following matters as ordinary resolutions:

    (1) To consider and approve the Report of the Directors for the year 2005;

    (2) To consider and approve the Report of the Supervisory Committee for the year 2005;

    (3) To consider and approve the Audited Consolidated Financial Statements of the Company and its subsidiaries for the year 2005;

    (4) To consider and approve the appointment of the auditors of the Company and to authorise the board of directors to fix their remunerations;

    (5) To consider and approve the Profit after Taxation Appropriation Plan and Final Dividend Distribution Plan for the year 2005;

    (6) To consider and approve the Financial Report for the year 2005 and the Financial Budget Report for the year 2006.

2. To pass the following matters as a special resolution:

    To consider and resolve that, subject to the approval of China Securities Regulatory Commission and/or other relevant statutory authorities in the PRC and/or the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited for the proposed issue of new H shares and/or the listing and dealing of Domestic Shares, the board of directors be authorised to:

    (1) to place and/or issue H Shares and/or Domestic Shares within a period until the conclusion of the next annual meeting or their resolution is revoked or varied in general meeting, whichever is the earliest, from the date of this resolution, provided that the total number of H shares and/or Domestic Shares to be placed and/or issued shall not exceed 20% (the "20% limit") of the number of H Shares and/or Domestic Shares of the Company in issue respectively;

    (2) subject to the 20% Limit, to decide the number of H Shares and/or Domestic Shares to be placed and/or issued and to deal with any matter arising from or related to the placing or issue of the new Shares mentioned above;

Notice of Annual General Meeting (Cont'd)

(3) to amend, in accordance with the increase in the registered capital of the Company, the relevant articles contained in the Articles of Association in relation to the registered capital of the Company and other articles that require corresponding amendments; and

(4) if any chronological variation of the wordings or numbering of the articles contained in the Articles of Association of the Company is necessary upon application to the companies examination and approval authority by the State Council and China Securities Regulatory Commission for examination and approval, to make corresponding amendments to the Articles of Association as required by such authority and China Securities Regulatory Commission.

By order of the Board
Chen Ping
Chairman

31 March 2006, Hangzhou, the PRC

Registered office in the PRC:
4th Floor
108 Gu Cui Road
Hangzhou City
PRC

Place of business in Hong Kong:
Unit 1116-1119
Sun Hung Kai Center
30 Harbour Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of H shares proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited with the Company's H Share Registrar, Hong Kong Registrars Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the above meeting or appointed time of voting.

3. Shareholders or their proxies shall present proofs of identities upon attending the above meeting.

4. The Register of Members will be closed from 23 April 200[6] to 22 May 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified for the proposed final dividend and to attend the above meeting all transfer documents accompanied by relevant share certificates must be lodged with the Company's H Share Registrar not later than 4:00 p.m. on 21 April 2006 in order to be registered as a member of the Company.

5. Shareholders entitled to attend the above meeting are requested to deliver the reply slip for attendance to the Company to be received by the Company 20 days before the date of meeting.