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

2006
Annual Report

* for identification purpose only

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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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DIRECTORS

Executive directors

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

Independent non-executive directors

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

SUPERVISORS

Supervisors

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

Independent supervisors

Mr. Feng Pei Xian
Mr. Wang Hui

AUTHORISED REPRESENTATIVE

Mr. Chen Ping
Ms. Chan Ching Yi, Yvonne *ACCA*

COMPLIANCE OFFICER

Mr. Xue Shi Cheng

QUALIFIED ACCOUNTANT

Ms. Chan Ching Yi, Yvonne *ACCA*

COMPANY SECRETARY

Ms. 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
Zhejiang Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN CHINA

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

AUDITORS

SHINEWING (HK) CPA Limited
20/F, Shui On Centre
6-8 Harbour Road
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 (the "Company") the 2006 Annual Report of the Company and its subsidiaries (together the "Group").

FINANCIAL HIGHLIGHTS

I hereby announce that for the year ended 31 December 2006, the Group realized a turnover of approximately RMB163,752,000 with a net loss of approximately RMB21,017,000.

The Board does not recommend a payment for final dividends for the financial year ended 31 December 2006.

OPERATION REVIEW

In 2006, the valued-added services of the Group made significant progress. In 2006, the Group acquired two renowned companies in the industry, namely Zhejiang Tianxin Science and Technology Development Company Limited and Zhejiang Lan Chuang Information Company Limited. Through acquisitions, expansion of business and market was speed up. In the product side, the Group continued to develop co-operation with operators in the value-added services market actively and stably. At, present, Unicom Quan Quan, IVR, WAP fetches satisfactory progress. The industrial and commercial online service, which was designed for the industrial and commercial enterprises, ran formally in Zhejiang Province and national-wise promotion was commenced. The Group also provided direction consultation and peripheral information inquiry service for China Telecom's Number Bai Shi Tong, which laid the foundation for the coming year's operation.

FUTURE PROSPECTS

In the year, the Group cooperated well with operators such as China Unicom, China Telecom, China Mobile, China Netcom, etc.. The Company's vital core business was promoted well in the whole country through the operators, and is expecting a bumper harvest in the year to come. Meanwhile, the Company got the energetical support from its shareholders and business partners, and again we would extend our hearty thanks to them.

APPRECIATION

Finally, on behalf of the Board and the management, I would like to express my gratitude to our business partners, customers and other shareholders for their support in the past year. I also thank for our staff for making all-out efforts with single-hearted devotion. Looking forward to the future, we will continue grasping every opportunity to promote the value of the Company.

Chen Ping
Chairman

30 March 2007
Hangzhou, the PRC

Management Discussion and Analysis

OPERATION REVIEW

1. Review of operating results for the year

For the year ended 31 December 2006, the audited consolidated turnover of the Group was approximately RMB163,752,000, representing an increase of approximately RMB45,544,000, or approximately 38.53% as compared with that of 2005.

The audited net loss attributable to equity holders of the Company for the year ended 31 December 2006 was approximately RMB21,017,000, comparing to the audited net loss attributable to equity holders of the Company for the year ended 31 December 2005 of approximately RMB28,348,000.

The main reasons for the results for the year are:

(1) gross margin maintained at relatively low level due to continuous sheer market competition faced by the Group; and

(2) increased investments in research and development for telecommunications value-added services, which will be the driver for the Group's future growth.

2. Product and business development

During the year, the Company's direction to pursue value-added service business was very clear. In the area of value-added service, the Group mainly completed the connection with various operators. The traditional value-added products such as voice messages, secretary service and WAP, etc., had steady development during the year. To cope with new market demands, the Company kept on upgrading the product content through continuous enhancement of product functionality. Meanwhile, several new lines of business have already been put into operation. For instance, the Quan Quan products offer video telephone and video on demand service for users. In the area of industry value-added service, the industrial and commercial online service, which was designed for the industrial and commercial enterprises, ran in Zhejiang formally and will be promoted to all parts of China. In the area of fixed line telephone value-added service, the Company mainly operates the fixed line telephone missing call notification products and commences to develop towards personal communication assistant progressively, with an aim to promote the comprehensive value-added service products based on fixed line telephone. In the area of mobile phones, the Kai Gi Tong related products entered the operation stage.

Management Discussion and Analysis (Cont'd)

Positioning service is one of the operating products in the area of industry value-added service and is also one of the main business lines of the Company. The position management system for inner-river steamers has commenced operation. The Group also provided direction consultation and peripheral information inquiry service for China Telecom's Number Bai Shi Tong, which have laid the foundation for the coming year's operation. In the area of operation support system, the development of enterprise information management system for Unicom was basically completed and on-site trial run was commenced. At the same time, the Group won the second stage enterprise informationalised contracts of Unicom in seven provinces.

3. Employees information

As at 31 December 2006, the Group had approximately 350 (2005: 350) employees in total. The total staff costs of the Group for the year amounted to approximately RMB11,697,000 (2005: RMB13,660,000).

The Group's human resources management strategy is formulated in accordance with the Group's development strategy and long term goal. Being an important constituent making up the Group's collective development strategy, human resources strategy gives the fundamental support and impulsive effect to make the Group's collective strategy to be realized. The entire infrastructure of human resources management is built up in accordance with the Group's integral strategy and vision. At the same time, incentive scheme will be embedded in other human resources programs and flourishing result is expected from this cross match.

The Group opened wide for recruitment channels, set up mechanisms for attracting human resources, grasped for human development and formulated a good system in people deployment and incubation.

The Group implemented an annual income target system which was linked up with staff performance appraisal and compensation system. Target annual income was confirmed and released in accordance with performance appraisal result. After a total assessment on employee's job performance, capability, and work attitude, an integrated evaluation could be established for the employee which will be used as referencing standard. Through the integration of the two systems, the employees are effectively motivated and the attainment of the Group's target is assured.

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 invited professional consulting firms to design training system and deliver courses. Training plan was given to suit individual staff so as to help each one more compatible with the Company's job requirement and ensure comprehensive development during his career life. The Group could have more better development only if employees were 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 2006, the Group was mainly financed by proceeds generated from daily operations and bank borrowings.

- As at 31 December 2006, the Group's cash and bank deposits balances amounted to approximately RMB31,546,000 (2005: RMB75,803,000).

- As at 31 December 2006, the Group had unsecured short-term borrowings amounted to RMB76,800,000 (2005: RMB74.000,000), at interest rates ranging from 5.0% to 6.4% (2005: 4.6% to 6.7%).

- As at 31 December 2006, the Group had a total asset value of approximately RMB239,084,000 (2005: RMB274,915,000).

- As at 31 December 2006, the Group had current liabilities of approximately RMB123,131,000 (2005: RMB142,178,000).

- As at 31 December 2006, the Group had equity attributable to equity holders of the Company of approximately RMB100,164,000 (2005: RMB121,181,000).

- As at 31 December 2006, the Group had minority interests of approximately RMB15,789,000 (2005: RMB11,556,000).

- As at 31 December 2006, the Group had a gearing ratio (i.e. the ratio of liabilities to total assets) of approximately 51.50% (2005: 51.72%).

- As at 31 December 2006, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 60.17% (2004: 56.48%).

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

- As at 31 December 2006, the bank deposits amounting to RMB12,000,000 (2005: RMB19,848,000) were pledged to secure general banking of facilities granted to the Group.

- As at 31 December 2006, the Group provided corporate guarantee to secure general banking facilities granted to a related company amounting to RMB20,000,000 (2005: Nil).

Management Discussion and Analysis (Cont'd)

FUTURE PROSPECTS

1. Orders and sales contracts in hand

The orders on hand of the Group mainly include the capacity expansion projects for the management support system in various provinces and e-Government projects. The Company, being the second stage selected supplier of Unicom's management support system, is carrying out the second stage pilot project in Chongqing Unicom, with the focal points at enterprise gateway and mobile gateway. Regarding positioning service, the Company continues to install positioning devices in the inner-river steamers. The Number Bai Shi Tong direction consultation and peripheral information inquiry of China Telecom has entered the test run stage and will begin to put into formal operation. The intensively promoted fixed line telephone value-added services and the personal communication assistant will become a new growth driver. The growth of users of industrial and commercial information service is decent. The user population will grow at tremendous speed after the national wise promotion. The business with Unicom will continue to develop in the other provinces and the user number is expected to increase at an expeditious rate.

2. Prospects of new business and new products

In the area of value-added services, the Group will leverage on the base of original products, such as short messages, voice messages, secretary services and WAP, etc, to developing new products according to the demand of the market. In the area of education, the Group will continue to launch correlating products in information service by cooperating with related websites. In the area of cooperation with China Telecom, products like enterprise alliance, short message business card, map business card, etc. will be heavily promoted and rapidly developed in the coming year. The development of enterprise commercial information for enterprise users is underway. The intensively promoted fixed line telephone value-added services and the personal communication assistant will become a new growth driver. In the area of application service, the management support system is at present in the stage of internal testing for new version of J2EE, hoping to improve its function continuously.

Directors, Supervisors and Senior Management

DIRECTORS

Executive directors

Mr. Chen Ping, aged 43, is the chairman of the Company. He is an advisor to students seeking their master degree and an associate professor at Zhejiang University. Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University with a bachelor degree and a master degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University, Mr. Chen has been involved in the R&D of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University for 7 years up to 1997. Mr. Chen published two computers networking academic textbooks and a number of academic research papers in China. Mr. Chen joined the Company in May 1997.

Mr. Xue Shi Cheng, aged 43, is the vice chairman of the Company. Mr. Xue graduated from Zhejiang Agricultural University in July 1987 and previously worked for the State Science & Technology Commission and the Ministry of Internal Trade. Moreover, Mr. Xue served as the deputy secretary-general of Beihai Government. Mr. Xue has been involved in the investment and capital management in relation to 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 joined the Company in April 2001.

Mr. Shi Lie, aged 42, is the vice-chairman of the Company. He graduated from Zhejiang University with a PhD degree in computer applications. Mr. Shi was an associate research analyst at the Faculty of Computer of Zhejiang University and the chief executive officer and chairman of Zhejiang University Innovation Tuling Information Technology Company Limited. Mr. Shi is currently the director and the chief executive officer of Insigma Technology Co. Ltd.. Mr. Shi joined the Company in August 2005.

Ms. Pan Lichun, aged 38, graduated from the School of Economics of Zhejiang University with a PhD degree. Ms. Pan was the manager of investment department and the vice general manager of financial management centre in Zhejiang Conba Group Company Limited. Ms. Pan was also the assistant to general manager and the vice general manager of Zhejiang Natural Holdings Limited. Ms. Pan is currently the director and vice president of Insigma Technology Co. Ltd.. Ms. Pan joined the Company in August 2005.

Mr. Hu Yang Jun, aged 36, graduated with a bachelor degree from Anhui Normal University with majors in Chinese Language and Literature and minors in International Trades. He 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. Mr. Hu joined the Company in February 2004.

Directors, Supervisors and Senior Management (Cont'd)

Independent non-executive directors

Mr. Zhang De Xin, 77, 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.

Mr. Cai Xiao Fu, 68, 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 joined the Company in October 2001.

Mr. Gu Yu Lin, 36, graduated from the Faculty of Finance and Accounting of Fudan University in June 1997. Mr. Gu is an assistant accountant. 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. Mr. Gu is the chairman of the audit committee of the Company.

Directors, Supervisors and Senior Management (Cont'd)

SUPERVISORS

Supervisors

Mr. Fu Liang Yuan, 51, 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 and was fully responsible for the work in the finance department and at the same time monitoring the investment department. Mr. Fu had previously served as the financial controller of Huatong International Group Company Limited, which was headquartered in Shanghai, since August 2000 for eight months. Mr. Fu joined the Group in April 2001.

Mr. Huo Zhong Hui, 37, graduated with a master degree in the faculty of Computer Software in Zhejiang University. He is now engaged in the fields of research and technology. Mr. Huo joined the Company in March 1999. Mr. Huo is the chairman of the supervisory committee of the Company.

Ms. Liu Cui Yu, 33, 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. Ms. Liu joined the Company in August 2002.

Independent supervisors

Mr. Feng Pei Xian, 70, graduated from Dong Kung College. He 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. Mr. Feng joined the Company in April 2001.

Mr. Wang Hui, 33, 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. Wang Hui joined the Company in September 2004.

Directors, Supervisors and Senior Management (Cont'd)

SENIOR MANAGEMENT

Ms. Liu Qiao Ping, 34, is the Company's chief executive officer. Ms. Liu graduated from the University of Petroleum and is now studying in the famous Centural European International Industrial & Commecial Institute. Ms. Liu has been long-termed engaged in fields such as corporate administration, human resources, government relations, corporate governance and group management, etc. She has attained extensive experience with merit achievements. Ms Liu joined the Company in April 1998.

Mr. Wang Lei Por, 33, is the Company's vice president. Mr. Wang graduated from Zhejieng University's Computer Science and Technology Department with a Master Degree. Since 1997, Mr. Wang has been involving and being experienced in technological research and development. Mr. Wang joined the Company in May 1997.

Mr. Jin Lian Fu, 60, 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. Jin joined the Company in August 1998.

Mr. Li Tak Hong, 39, a doctoral candidate of Zhejiang University specialized in political economy. Mr. Li is the vice president of the Company. Mr. Li possesses years of experience in financial management with expertise in fields of investment and corporate finance. Mr. Li joined the Company in December 2004.

Mr. Wang Yong Gui, 33, is the secretary to the board of directors of the Company. He graduated from the Institute of Managerial Economics in the Industrial University of Shenyang, with a specialized bachelor's degree in the International Finance. He has abundant experience in coporate governance of listed company and investment and financing. Mr. Wang had worked in the securities department of Wafangdian Bearing Company Limited. Mr. Wang joined the Company in July 2002.

Ms. Chan Ching Yi, Yvonne, 32, 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 10 years of experience in auditing and accounting fields. Ms. Chan joined the Company in September 2002.

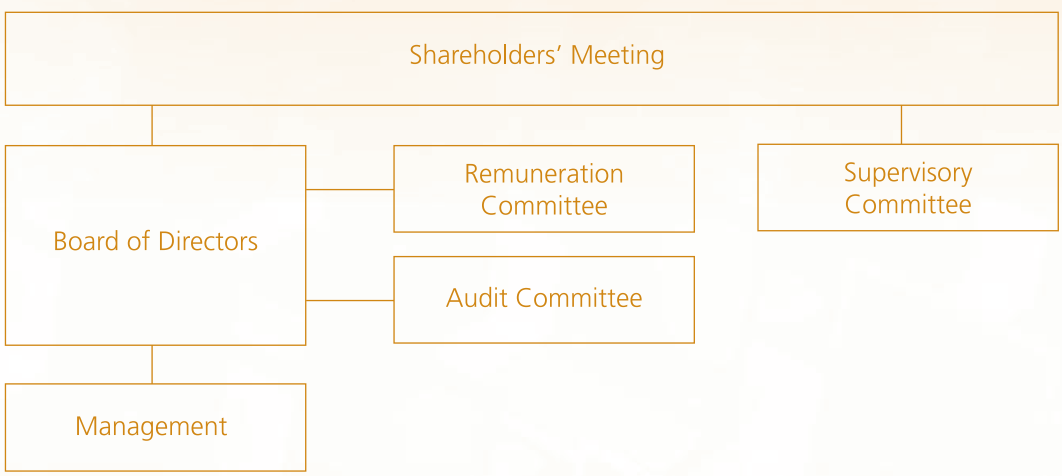
Corporate Governance Report

During the report period, the Company pursues the company mission of honesty and diligence so as to ensure that the Company can develop stablely. The Company is devoted to advance the Company's operation more in both transparent and systematic ways, and establish a proper system of corporate governance which is in compliance with PRC Company Laws and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and Appendix 15 to the GEM Listing Rules "Code of Corporate Governance Practices" (the "Code"). The Company undertakes to refrain from spoiling the shareholder's interests and company's value.

In the period, the Company ensures to keep conducts pursuant to the Code and put the principles on daily management system into application. The Company also amended and supplemented the Rules and Regualtions of Shareholders Meetings, Rules and Regulations of Board Meetings and the Rules and Regulations of Supervisory Meetings. The amendment scope included protection on beneficiary interests of the Shareholders, the proceedings at Board Meeting and voting procedures and investor relations, etc.

SUMMARY OF CORPORATE GOVERNANCE STATUS

The following is management structure of the Company:



Corporate Governance Report (Cont'd)

Set out below is a summary of the Company's corporate governance status as compared to provision of the Code:

Code	Status of Company's Corporate Governance
A. Director	
A.1 Board of directors	The Company's Board assumes responsibility for leadership and control the Company.
A.1.1	During report period, seven Board meetings were held altogether. The attendance of directors was as follows:

	Number of meetings attended/ number of meetings held
Executive director	
Chen Ping *(Chairman)*	7/7
Xue Shi Cheng	7/7
Shi Lie	7/7
Pan LiChun	7/7
Hu Yang Jun	5/7
Independent non-executive director	
Zhang De Xin	7/7
Cai Xiao Fu	7/7
Gu Yu Lin	7/7

A.1.2	The Company sets up full-time Board secretary, who is responsible for preparing the matters of Board of directors. So the proposed agenda of Board meetings will solicit and collect director's opinion in advance. This guarantees all directors have an opportunity to put forward any topic.
A.1.3	The Company observes requirement of the Code, gives 14 days notice of periodic Board meeting, the time of meeting, the place, topic are sent to every director, through fax and post and the director signs for the receipt.
A.1.4	The Board secretary and directors have established effective connection, the former offered one's own specialized suggestion, for directors' reference.

Corporate Governance Report (Cont'd)

A.1.5	All minutes are filed and preserved, available for the directors' and relevant personnel's consulting at any time.
A.1.6	Matters arised in the meeting and opinions from directors are recorded and are further confirmed in written form for future reference.
A.1.7	If director needs to consult the opinion of independent professional firms, its expenses are undertaken by the Company.
A.1.8	If the topic relates to a director and substantial shareholder, the involving director and shareholder will not participate in voting.
A.2 Chairman and Chief Executive Officer	Chiarman and Chief Executive Officer of the Company are held by two people respectively. It guarantees the rights and accountability is in balance, so that power does not concentrate a personage.
A.2.1	The office of the Chairman is served by Mr. Chen Ping, whereas the office of the Chief Executive Officer is served by Ms. Liu Qiao Ping. The two positions are based on Articles of Association and the management system of the Company, having carried on the division of the scope of official duty, balance of power and authorisation is assumed.
A.2.2 and A.2.3	The stated items of director's meeting agenda are supported by written materials which will be sent to directors at least 5 days before meeting, the director has an opportunity for sufficient consideration of agenda. The Chairman explains at the meeting in detail.
A.2.4 to A.2.6	The Chairman appoints the secretary of Board of directors to be responsible for agenda, and authorises director's meeting agenda each time in person to ensure the effective operation of the Board. The Chairman puts into the affairs of the Board with full strength and set up proper governance procedures to ensure the Company's interests.
A.3 Board composition	The members of the Board possess appropriate skills and experience. The independent non-executive director exceeds 1/3 of the Board and can make professional judgement effectively and independently.

Corporate Governance Report (Cont'd)

	A.3.1	The independent non-executive directors are expressly recorded as such in the Company's communication list.
	A.3.2	There are 3 independent non-executive directors of the Company, exceeding 1/3 of the Board.
A.4	Appointments, re-election and removal	Appointment, re-election of directors need to be approved by shareholders' meetings. The term of each director is three years, and can be re-elected in succession. According to the stipulations of Articles of Association, the Company cannot terminate the office of a director without course. The resignation and termination of a director should need reasonable explaination.
	A.4.1	The Articles of Association stipulates that the terms of all directors are three years and can continue to hold office when re-elected.
	A.4.2	Any director to be appointed for replacing in vacancy must be thereafter elected in the Company's following shareholders' meeting. The Company does not require the rotation of directors in three years. Instead, directors are elected by shareholders' meeting, and can be reappointed.
A.5	Director's responsibilities	Each director understands the responsibility and requisite skill for acting as director when appointed. The Company will circulate the update requirements to the directors at the appropriate time, or organizing essential training to them.
	A.5.1	Director appointed by the Company will be arranged with director's training, so that responsibility and obligation are made known to director.
	A.5.2	The three non-executive directors have the opportunity to offer their professional, independent suggestion to the Company, and supervise Company's daily operation.
	A.5.3	In the report period, every director of the Company put into more energy in the affairs of the Company actively, commit one's duty perseveringly.

Corporate Governance Report (Cont'd)

A.5.4	The Company adopts the required standard of dealings to bind on directors. The same standard applies also to supervisors and senior executives. After the Company's inquires, directors, supervisors and senior executives confirmed that they complied with the required standard of dealings.
A.6 Supply of and access of information	The Company offers essential and sufficient information to to directors in time, so that they have sufficient time to consider and understand situation under which decision is to to be made.
A.6.1	Meeting documents are sent to every director 5 days before the meeting.
A.6.2	Before meeting, intact and reliable meeting materials are provided which leads the director to make the decision when fully understanding the situation. Directors can further inquire about the details at the same time.
A.6.3	Directors have the right to consult the documents of Board and relevant materials. The Company will respond in time to the inquiry of directors.
B. Remuneration of directors and senior executive	The remunerations of the executive directors and senior management, who receives payments from the Company, are based an annual salary system. Other directos receive their remunerations from other entities.
B.1.1	The Company sets up the remuneration committee, make concrete scope of its job duty. The committee is comprised by Mr. Cai Xiao Fu, Mr. Gu Yu Lin, and Mr. Shi Lie. Among them, Mr. Cai Xia Fu and Mr. Gu Yu Lin are independent non-executive directors. The committee held one meeting during the report period, all committee members attended. In the meeting, they checked and rated the whole present salary level of the Company.
B.1.2	Remuneration committee will convene proper meeting for discussion and seek the opinion of Chairman and Chief Executive Officer.

Corporate Governance Report (Cont'd)

B.1.3 and B.1.4	Scope of offical duty of remuneration committee of the Company accords with the Code. Details can be referred to the proceeding regulations of the Company's remuneration committee.
B.1.5	Remuneration committee has the right to review the salary system of the Company and associated documents.

C. Accountability and Audit

C.1 Financial Reporting

C.1.1	The management submits financial information such as business plan, financial budget, final financial statements, etc. to the Board regularly, for the directors to review.
C.1.2	Directors know their responsibility of preparation of the financial statements.
C.1.3	Announcement issued by the Company were approved by directors.

C.2 Internal controls

C.2.1	During report period, the Board holds one meeting to appraise the validity of control inside the Company in an all-round way, supervisors and part of the senior executives seat in the meeting. The meeting confirmed that the procedures of internal control inside the Company is legally compliant and effective.

C.3 Audit Committee

C.3.1	Minutes are prepared by the secretary of the Board, and are signed and confirmed by the members of audit committee.
C.3.2	Audit committee is made up of three independent non-executive directors, and none of them was a partner of any of the previous auditors.
C.3.3 and C.3.4	Audit committee shows the clear scope of offical duty, is open for investor's inquiring of the Company.

C.3.5 In report period, audit committee recommend SHINEWING (HK) CPA Limited as the auditors of the Company, and got the approval of the Board.

C.3.6 Audit committee has the right to access to Company resources, so as to ensure it exercises authority. Relevant expenses are paid by the Company.

D. Delegation by the board

D.1 Functions of management of the Board

D.1.1 and D.1.2 The duties of the Board are based on the requirement of the Comany Law. Every committee follows and exercises authority in its authorized range. The management exercises its right according to the requirement of the Company Law.

D.2 Board committees

D.2.1 and D.2.2 The Company sets up audit committee, remuneration committee, all having clear scope of offical duty. All decisions and suggestions made by the committees have to be approved by the Board, unless there are legal or regulatory restrictions on their ability to do so.

E. Communication with shareholder

E.1.1 The Chairman is responsible for chairing shareholders' meeting, each of matters to be considered independently at the meeting will be voted separately.

E.1.2 In the annual general meeting, the chairmen of audit committee and remuneration committees are arranged to attend, all directors, supervisors and senior executives will seat in the meeting.

Corporate Governance Report (Cont'd)

E.2 Voting by poll

E.2.1 & E.2.2 & E.2.3	The Company states clearly in the relevant circular that sends to the shareholders, in accordance with the requirements of Rule 17.47(4) of GEM Listing Rules, the voting procedure. Voting will be conducted with written documents to ensure proper recording. There is assigned personnel that counts the voting results at the meeting, and the vote proportion of each draft resolution is announced by the Chairman finally.

DIRECTOR'S TRANSACTION IN SECURITIES

The Company has adopted the "Compulsory Transaction Guidelines Standards" to bind the 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 complied with the "Compulsory Transaction Guidelines Standards" in the year.

BOARD OF DIRECTORS

The current Board 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 2005, Mr. Chen Chun and Mr. Zhao Jian resigned as executive directors. The Board has appointed Mr. Shi Lie and Ms. Pan Lichun as executive directors with effect from 22 August 2005.

The current members of the Board include:

Executive directors	**Independent non-executive directors**
Mr. Chen Ping *(Chairman)*	Mr. Zhang De Xin
Mr. Xue Shi Cheng	Mr. Cai Xiao Fu
Mr. Shi Lie	Mr. Gu Yu Lin
Ms. Pan Lichun	
Mr. Hu Yang Jun	

Corporate Governance Report (Cont'd)

For the year 2006, the remuneration of directors of the Company mainly comprised of basic salaries. Details of directors' remuneration are as follows:

Name of Directors	**Remuneration** *(RMB'000)*	**Directors' fees** *(RMB'000)*
Chen Ping *(Chairman)*	83	–
Xue Shi Cheng	93	–
Shi Lie	20	–
Pan Lichun	20	–
Hu Yang Jun	20	–
Zhang De Xin	10	–
Cai Xiao Fu	10	–
Gu Yu Lin	10	–

AUDIT COMMITTEE

The Company established an audit committee upon listing and stipulates duty and accountabilities in compliance with the requirements as set out in Rules 5.28 and 5.29 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 Company. The audit committee comprises three independent non executive directors, with Mr. Gu Yu Lin, who prossesses the requisite professional qualification and financial experience, as the chairman. Mr. Zhang De Xin and Mr. Cai Xiao Fu are members of the audit committee.

In the year, the audit committee convened four meetings and reviewed the final results for the year 2005, first quarterly report, half-year report, and the third quarterly report of the year 2006. The audit committee also committed with the auditors in relation to the financial positions and internal audit of the Company.

The following are the details of the audit committee meetings in the year:

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

An audit committee meeting is held on 30 March 2007 to consider and discuss the results, financial conditions, principal accounting and internal audit affairs for the year ended 31 December 2006. Questions focused on auditor's report are asked on relevant financial officers.

Corporate Governance Report (Cont'd)

REMUNERATION COMMITTEE

According to relevant rules of the Code, the Company has established the remuneration committee. The remuneration committee comprises Mr. Gu Yu Lin, Mr. Cai Xiao Fu, and Mr. Shi Lie. Among them the portion of independent non-executive directors accounts for 2/3. The remuneration committee has made up accountabilities and is responsible for the determination of the whole remuneration policy and system of the Company, and the remuneration standard of the director and senior executive. It supervises and fosters the Company to comply with those relevant PRC social insurances schemes and policies of community funds. The remuneration committee will combine the result of appraisal of the Company's achievement, to re-assess the Company's remuneration level and individual salary standard of the employees.

NOMINATION COMMITTEE

The recommended best practices of the Code A.4.4, requires that "Issuers should establish a nomination committee. A majority of the members of the nomination committee should be independent non-executive director". However, the Company has not set up a nomination 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 actively considering the setting up of a nomination committee so that the recommended best practices can be followed.

AUDITORS' REMUNERATION

During the year, the Group incurred approximately RMB572,000 for remunerations in respect of audit services provided by the Company's auditors.

COMMUNICAITONS BETWEEN SHAREHOLDERS AND INVESTORS

In respect of enquires raised from investors, the Company always feedback based on the rationale of transparency and accountability. The Company provides an investor column concerned to investors for questions feedback in the Company's website and has designated persons to answer investors' enquiries.

On behalf of the Board
Chen Ping
Chairman

30 March 2007
Hangzhou, the PRC

Report of the Directors

The Board is pleased to present its annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2006.

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 36 to the consolidated financial statements.

An analysis of the Group's turnover and loss for year on business segment activities basis has been set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2006 and its state of affairs as at that date are set out in the consolidated financial statements on pages 34 to 89 of the annual report.

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

PROFIT AVAILABLE FOR DISTRIBUTION

At 31 December 2006, the Group did not have profit available for distribution to equity holders of the Company (2005: RMB4,668,000).

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 13 to the consolidated financial statements.

Report of the Directors (Cont'd)

BORROWINGS AND INTERESTS CAPITALISATION

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

SHARE CAPITAL

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

RESERVES

Details of the reserves of the Group are set out in the consolidated financial statements on pages 34 to 89 of the annual report.

RETIREMENT PLAN

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 77.8% of the Group's turnover and the largest customer of the Group accounted for approximately 61.2% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 77.9% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 69.0% 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 2006.

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2006 and the Group's assets and liabilities as at 31 December 2002, 2003, 2004, 2005 and 2006 is set out on page 90 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. Shi Lie
Ms. Pan Lichun
Mr. Hu Yang Jun

Independent non-executive directors

Mr. Zhang De Xin
Mr. Cai Xiao Fu
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

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 year 2005, Messrs. Chen Chun and Zhau Jian resigned as executive directors with effect from 22 August 2005 due to personal reasons. The Board appointed Ms. Pan Lichun and Mr. Shi Lie as executive directors with effect from 22 August 2005.

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 form the Company.

Saved as disclosed above, none of the directors nor supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.

Report of the Directors (Cont'd)

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the directors, supervisors and senior management are set out on pages 9 to 12 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 6 and 7 to the consolidated financial statements.

DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2006, 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
Director				
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.

Report of the Directors (Cont'd)

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

Save as disclosed herein, during the year ended 31 December 2006, none of the directors, supervisors or chief executives was granted options to subscribe for shares of the Company. As at 31 December 2006, 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 2006, 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
Insigma Technology Co. Ltd	Beneficial owner	81,802,637 Domestic Shares	24.10%
Guoheng Shengxing Media Science Group Company Limited (formerly "Guoheng Media Science Group 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%

Report of the Directors (Cont'd)

CONNECTED TRANSACTIONS

1. On 14 June 2006, the Company entered into the structure contracts with Zhejiang Tianxin Science and Technology Development Company Limited ("Zhejiang Tianxin") and/or all its shareholders pursuant to which, amongst others, the Company would be provided with (i) the right to receive the cash revenues received by Zhejiang Tianxin from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements; (ii) the right to acquire 78% equity interest of Zhejiang Tianxin, as and when permitted by the relevant PRC laws, rules and regulations, for a pre-paid amount, that is, RMB10,000,000; (iii) the right to ensure that the Company will own (a) the principal intellectual property rights of Zhejiang Tianxin and (b) all future intellectual property rights of Zhejiang Tianxin on an exclusive basis; and (iv) a pledge over 78% equity interest in Zhejiang Tianxin. As Ms. Tao Tsaiyun, the mother of Mr. Chen Ping (the executive director, chairman and substantial shareholder of the Company) and a connected person of the Company, holds 78% equity interest in Zhejiang Tianxin, Zhejiang Tianxin is an associate of Ms. Tao Tsaiyun and therefore a connected person of the Company. The entering into of the structure contracts constituted a connected transaction for the Company.

2. On 4 July 2006, the Company entered into the agreement with Zheda Insigma Group Co. Ltd. ("Insigma Group") and Zheda University Innovation Tuling Information Technology Company Limited ("Zheda Tuling"), pursuant to which the Company agreed to provide Zheda Tuling with a guarantee for the maximum amount of RMB50,000,000 to secure Zheda Tuling's obligations in respect of its bank facilities and, in return, Insigma Group agreed to provide the Company with a guarantee for the maximum amount of RMB60,000,000 to secure the Company's obligations in respect of its bank facilities. As Zheda Tuling is a connected person of the Company, the entry of the agreement constitutes a connected transaction for the Company.

3. On 11 December 2006, the Company entered into the structure contracts with Zhejiang Lan Chuang Information Co.,Ltd. ("Lan Chuang") and/or Mr. Jin Lian Fu ("Mr. Jin") and the other shareholders of Lan Chuang pursuant to which, amongst others, the Company will be provided with (i) the right to receive the cash revenues received by Lan Chuang from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements; (ii) the right to acquire up to but not exceeding 85% equity interest of Lan Chuang, as and when permitted by the relevant PRC laws, rules and regulations, for a pre-paid amount, that is RMB4,250,000; and (iii) a pledge over 85% equity interest in Lan Chuang. Mr. Jin is a member of senior management of the Company with position as vice president of the Company. Also, Mr. Jin is a member of the initial management shareholders of the Company, as disclosed on page 113 of the Company's initial public offering prospectus dated 24 April 2002, and accordingly, Mr. Jin is a connected person of the Company. Further, Mr. Jin holds 85% equity interest in Lan Chung, Lan Chuang is an associate of Mr. Jin and therefore a connected person of the Company. The entering into the structure contracts constitutes a connected transaction for the Company.

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 China Securities Regulatory Commission 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 2006.

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. During the year, the audit committee reviewed the first quarterly report, half-year report, the third quarterly report of the Group for the year 2006 and the annual report of the Group for the year 2005. The audit committee also reviewed the annual report of the Group for the year 2006.

SUBSEQUENT EVENTS

The subsequent events of the Group for the year ended 31 December 2006 are set out in note 37 to the consolidated financial statements.

AUDITORS

During the year, BDO McCabe Lo Limited resigned as auditors of the Company. There were no circumstances connected with the resignation which should be brought to the attention of the shareholders or creditors of the Company. On 20 September 2006, the Board appointed SHINEWING (HK) CPA Limited as auditors of the Company 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 2007 will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chen Ping
Chairman

30 March 2007
Hangzhou, the PRC

Report of the Supervisory Committee

The Supervisor Committee is pleased to present the annual report for the year of 2006.

SUPERVISORY COMMITTEE OPERATION REVIEW

In the year, 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.

During the year, the Supervisory Committee 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 year, 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 year, 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 personal fault.

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

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

30 March 2007
Hangzhou, the PRC

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF
ZHEDA LANDE SCITECH LIMITED
浙江浙大網新蘭德科技股份有限公司
(established as a joint stock limited company in the People's Republic of China)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Zheda Lande Scitech Limited (the "Company") and its subsidiaries collectively referred to as (the "Group") set out on pages 34 to 89, which comprise of the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by International Accounting Standard Boards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report (Cont'd)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the companies' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
30 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	5	**163,752**	118,208
Cost of sales		**(122,070)**	(97,241)
Gross profit		**41,682**	20,967
Other operating income		**12,783**	11,156
Distribution and selling expenses		**(12,533)**	(11,493)
General and administrative expenses		**(61,275)**	(45,459)
Finance costs	8	**(4,527)**	(4,427)
Share of results of associates		**1,783**	1,968
Loss before tax	9	**(22,087)**	(27,288)
Income tax expense	10	**(3,002)**	(400)
Loss for the year		**(25,089)**	(27,688)
Attributable to:			
Equity holders of the Company		**(21,017)**	(28,348)
Minority interests		**(4,072)**	660
		(25,089)	(27,688)
Dividend	11	**–**	–
Loss per share			
Basic	12	**RMB(0.062)**	RMB(0.083)

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	13	**13,148**	7,519
Intangible assets	14	**9,136**	6,138
Goodwill	15	**5,485**	492
Interests in associates	16	**6,313**	7,580
Long-term prepayments		**–**	1,086
Other non-current assets		**351**	373
		34,433	23,188
Current assets			
Inventories	17	**2,180**	2,196
Contract work in progress		**11,253**	15,667
Available-for-sale investments	18	**120**	–
Trade receivables	19	**44,052**	66,171
Prepayments and other receivables	20	**114,251**	90,157
Amounts due from associates	34	**1,249**	1,733
Pledged bank deposits	21	**12,000**	19,848
Bank balances and cash		**19,546**	55,955
		204,651	251,727
Current liabilities			
Trade and other payables	22	**29,511**	55,816
Receipt in advance from customers		**9,200**	10,773
Amount due to a director		**3,854**	–
Amounts due to minority shareholders		**1,092**	–
Current tax liabilities		**2,674**	1,589
Short-term borrowings	23	**76,800**	74,000
		123,131	142,178
Net current assets		**81,520**	109,549
NET ASSETS		**115,953**	132,737
Capital and reserves			
Paid in capital	25	**33,958**	33,958
Reserves	26	**66,206**	87,223
Equity attributable to the equity holders of the Company		**100,164**	121,181
Minority interests		**15,789**	11,556
TOTAL EQUITY		**115,953**	132,737

The consolidated financial statements on pages 34 to 89 were approved and authorised for issue by the Board of Directors on 30 March 2007 and are signed on its behalf by:

CHEN PING
Chairman

XUE SHI CHENG
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005	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 shareholders	–	–	–	–	–	–	2,207	2,207
Dividend paid to minority shareholders	–	–	–	–	–	–	(842)	(842)
Release of loss of subsidiaries upon partial disposal of the subsidiaries	–	–	–	–	–	–	(237)	(237)
Appropriation	–	–	901	–	(901)	–	–	–
At 31 December 2005 and 1 January 2006	33,958	71,988	6,910	3,657	4,668	121,181	11,556	132,737
Transfer	–	–	3,657	(3,657)	–	–	–	–
Loss for the year	–	–	–	–	(21,017)	(21,017)	(4,072)	(25,089)
Capital contributions from minority shareholders	–	–	–	–	–	–	8,305	8,305
At 31 December 2006	33,958	71,988	10,567	–	(16,349)	100,164	15,789	115,953

Consolidated Cash Flow Statements

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES			
Loss before tax		**(22,087)**	(27,288)
Adjustments for:			
Interest expenses		**4,527**	4,294
Bank Interest income		**(586)**	(257)
Impairment loss on receivables		**13,797**	9,749
Discount on acquiring of subsidiaries		**(672)**	–
Depreciation of property, plant and equipment		**4,086**	2,400
Amortisation of intangible assets		**5,118**	5,612
Share of results of associates		**(1,783)**	(1,968)
Write-down of inventories to net realizable value		**–**	3,629
Gain on disposal of interest in an associate		**(2,196)**	–
Gain on disposal of certain business	29	**–**	(5,014)
Loss (gain) on disposal of property, plant and equipment		**16**	(2)
Gain on partial disposal of subsidiaries		**–**	(251)
Operating cash flow before movements in working capital		**220**	(9,096)
Decrease in inventories		**703**	4,237
Decrease (increase) in contract work in progress		**4,414**	(924)
Increase in available-for-sale investments		**(120)**	–
Decrease in trade receivables		**22,324**	34,824
Increase in prepayments and other receivables		**(15,293)**	(5,176)
Decrease in amounts due from associates		**484**	299
Decrease (increase) in long-term prepayments and other non-current assets		**1,108**	(1,063)
Decrease in trade and other payables and accruals		**(43,542)**	(2,593)
(Decrease) increase in receipt in advance from customers		**(1,573)**	713
Increase in amount due to a director		**3,854**	–
Increase in amounts due to minority shareholders		**1,092**	–
CASH (USED IN) FROM OPERATIONS		**(26,329)**	21,221
Interest paid		**(4,527)**	(4,294)
PRC income tax paid		**(1,917)**	(2,056)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(32,773)**	14,871

Consolidated Cash Flow Statements (Cont'd)

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
INVESTING ACTIVITIES			
Interest received		586	257
Acquisition of a subsidiary, net of cash acquired	28	(16,267)	(424)
Proceeds from partial disposal of subsidiaries		–	2,100
Proceeds from disposal of certain business, net of cash received	29	–	3,500
Purchase of property, plant and equipment		(6,974)	(2,172)
Proceeds from disposal of property, plant and equipment		52	6
Proceeds from disposal of an associate		6,160	–
Dividends received from an associate		–	183
Decrease (increase) in pledged bank deposits		7,848	(8,828)
NET CASH USED IN INVESTING ACTIVITIES		(8,595)	(5,378)
FINANCING ACTIVITIES			
New bank borrowings raised		76,800	74,000
Repayment of bank borrowings		(74,120)	(66,500)
Dividends paid to minority shareholders		–	(842)
Capital contribution from minority shareholders		2,279	–
NET CASH FROM FINANCING ACTIVITIES		4,959	6,658
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(36,409)	16,151
CASH AND CASH EQUIVALETNS AT THE BEGINNING OF THE YEAR		55,955	39,804
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		19,546	55,955

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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, trading of hardware and computer software, provision of telecommunication value-added services, and investment holding. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

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

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised International Financial Reporting Standards and Interpretations ("IFRSs") has resulted in changes to the Group's accounting policy in the following areas.

Accounting for financial guarantee contracts

The IASB has amended International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement" to require certain financial grarantee contracts issued by the Group to be accounted for in accordance with that standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out in note 3 below.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

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

Accounting for financial guarantee contracts (Cont'd)

In relation to a financial guarantee granted to banks over the repayment of a loan by an independent third party, the directors consider that the fair value of the financial guarantee contract at the date of grant is insignificant with reference to the valuation carried out by an independent professional valuer. Accordingly, the adoption of this IAS 39 has no material effect on how the results for the current or prior accounting periods have been prepared and presented.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies[1]
IFRIC 8	Scope of IFRS 2[2]
IFRIC 9	Reassessment of Embedded Derivatives[3]
IFRIC 10	Interim Financial Reporting and Impairment[4]
IFRIC 11	Group and Treasury Share Transactions[5]
IFRIC 12	Service Concession Arrangements[6]
IFRS 7	Financial instruments: disclosures[7]
IFRS 8	Operating segments[8]

[1] Effective for annual periods beginning on or after 1 March 2006.
[2] Effective for annual periods beginning on or after 1 May 2006.
[3] Effective for annual periods beginning on or after 1 June 2006.
[4] Effective for annual periods beginning on or after 1 November 2006.
[5] Effective for annual periods beginning on or after 1 March 2007.
[6] Effective for annual periods beginning on or after 1 January 2008.
[7] Effective for annual periods beginning on or after 1 January 2007.
[8] Effective for annual periods beginning on or after 1 January 2009.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of (excluding goodwill) consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of a subsidiary, for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognized immediately in profit or loss.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates (Cont'd)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's shares of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

Taxation

Income tax expense represents the sum of current tax and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax (Cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recovered or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effects is taken into account in calculating goodwill or in determining the excess of the acquire's interest in the net fair value of the acquire's identifiable assets, liabilities and contingent liabilities over cost.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets excluding goodwill (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Contruction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variation in contract work claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions (Cont'd)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms required delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" (FVTPL), "held-to-maturity investments", "available-for-sale (AFS) financial assets" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

Financial assets at FVTPL (Cont'd)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognsied in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 24.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to maturity investments. At each balance sheet date subsequent to initial recognition, AFS financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognised in profit or loss. Any impairment losses on AFS financial assets are recognised in profit or loss. Impairment losses on AFS debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

AFS financial assets (Cont'd)

For AFS 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. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortsied cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable in uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments issued by the Group (Cont'd)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 24.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments issued by the Group (Cont'd)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Retirement benefits

Payment to state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitled them to the contributions.

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.

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 consolidated income statement during the year in which they are incurred.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with effect of any changes in estimate accounted for on a prospective basis.

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 consolidated income statement.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the functional currency of the Company and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which related to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RMB using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates for the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

The Group's government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. 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 consolidated 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 accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

(iv) *Subsidy income*

Subsidy income is recognised upon cash receipt.

(v) *Dividend income*

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

(vi) *Commission income*

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

(vii) *Income from provision of Telecommunication value-added services*

Income from provision of telecommunication value-added services is recognised, net of discounts, when an arrangement exists, service is rendered, fixed or determined and collectibility is probable.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Target 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 Information. 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 Target 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 Target 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 Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Write-down of inventories to net realisable value

The management of the Target 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 Target Group carries out an inventory review at each balance sheet date and makes provision for obsolete items.

Impairment on intangible asset

Determining whether an intangible asset is impaired requires an estimation of the value in use of the cash-generating units to which the intangible asset belongs. 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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

5. 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) Provision of telecommunication value-added services.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

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

	Provision of telecommunication solutions		Trading of hardware and computer software		Provision of telecommunication value-added services		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment turnover	**20,118**	36,185	**91,694**	59,925	**51,940**	22,098	**163,752**	118,208
Segment results	**11,019**	3,499	**(1,132)**	(5,967)	**19,262**	11,942	**29,149**	9,474
Unallocated revenue							**12,197**	10,899
Unallocated expenses							**(61,275)**	(45,459)
Share of results of associates	**–**	–	**2,062**	–	**(279)**	1,968	**1,783**	1,968
Finance costs							**(4,527)**	(4,427)
Interest income							**586**	257
Loss before tax							**(22,087)**	(27,288)
Income tax expense							**(3,002)**	(400)
Loss for the year							**(25,089)**	(27,688)
Segment assets	**21,607**	55,962	**24,301**	36,956	**51,848**	9,671	**97,756**	102,589
Interests in associates	**5,594**	–	**–**	–	**719**	7,580	**6,313**	7,580
Unallocated assets							**135,015**	164,746
Total assets							**239,084**	274,915
Segment liabilities	**523**	19,689	**10,044**	34,157	**21,097**	2,569	**31,664**	56,415
Unallocated liabilities							**91,467**	85,763
Total liabilities							**123,131**	142,178
Other segment information:								
Capital expenditures	**4,950**	1,737	**64**	–	**1,960**	435	**6,974**	2,172
Depreciation and amorisation	**6,953**	7,379	**56**	–	**2,195**	633	**9,204**	8,012
Impairment loss on receivables	**2,112**	821	**–**	1,507	**290**	2,980	**2,402**	5,308
Unallocated impairment loss on loans and receivables							**11,395**	4,441
Total impairment loss on loans and receivables							**13,797**	9,749
Write-down of inventories to net realisable value	**–**	–	**–**	3,629	**–**	–	**–**	3,629
(Loss) gain on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	–	**(16)**	2

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

5. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Segment information (Cont'd)

(b) Secondary reporting segment – geographical segment

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

6. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The details of directors' remuneration of each of eight (2005: ten) directors for the years ended 31 December 2006 and 2005 are set out below:

For the year ended 31 December 2006

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:				
Mr. Chen Ping	–	83	–	83
Mr. Xue Shi Cheng	–	93	–	93
Mr. Shi Lie	–	20	–	20
Mr. Hu Yang Jun	–	20	–	20
Ms. Pan Lichun	–	20	–	20
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	–	–	–	–
Mr. Huo Zhong Hui	–	3	–	3
Ms. Liu Cui Yu	–	3	–	3
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Total	–	278	–	278

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

6. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Cont'd)

For the year ended 31 December 2005

		Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:					
Mr. Chen Ping		–	250	–	250
Mr. Zhao Jian	*(Note i)*	–	10	–	10
Mr. Xue Shi Cheng		20	180	–	200
Mr. Chen Chun	*(Note ii)*	–	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

Note (i) Resigned on 22 August 2005.

Note (ii) Resigned on 22 August 2005.

No directors waived any emoluments for the two years ended 31 December 2006.

No incentive payment for joining the Group or as compensation for loss of office was paid or payable to any directors for both years.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

7. EMPLOYEES' EMOLUMENTS

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

During the year, the five highest paid individuals included two directors (2005: two directors) of the Company, whose emoluments have been included in Note 6 above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006 **RMB'000**	2005 RMB'000
Salaries and other benefits	**475**	300
Contributions to retirement benefits scheme	**75**	36
	550	336

The emoluments of each of these individuals for the year were less than HK$1,000,000.

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

8. FINANCE COSTS

	2006 **RMB'000**	2005 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**4,178**	4,294
Other borrowings	**349**	133
	4,527	4,427

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

9. LOSS BEFORE TAX

Loss before tax has been arrived at after charging/(crediting):

	2006 RMB'000	2005 RMB'000
Salaries and other benefits (excluding directors' and supervisors' emoluments)	7,760	10,307
Contributions to retirement benefits scheme	3,937	2,696
Total staff costs	11,697	13,003
Amortisation of intangible assets	5,118	5,612
Depreciation of property, plant and equipment	4,086	2,400
Impairment loss on receivables	13,797	9,749
Write-down of inventories to net realisable value (included in costs of sales)	–	3,629
Research and development costs	7,631	2,242
Operating lease expense for office premises	1,454	1,462
Cost of inventories recognised as an expense	122,070	97,241
Auditors' remuneration	572	380
Net foreign exchange losses	–	3
Share of tax of associates (included in share of results of associates)	262	(62)
Bank interest income	(586)	(257)
Subsidy income *(note a)*	(2,719)	(4,210)
Subsidy on rental expenses *(note b)*	(3,600)	–
Discount on acquisitions of subsidiaries *(Note 28)*	(672)	–
Gain on disposal of property, plant and equipment	(16)	(2)
Gain on disposal of interest in an associate	(2,196)	–
Gain on partial disposal of subsidiaries	–	(251)

Notes:

(a) Pursuant to Guo Fa [2000] No. 18 issued by the State Council, the Company is subject to VAT at a rate of 17% on sales of self-developed software, and is granted VAT refund of the amount of actual tax burden exceeding 3% on sales of self-developed software. VAT refund is recorded as income upon receipt.

(b) The Group received a subsidy of approximately RMB3,600,000 for rental expense of office premises granted by local government for high and new technology enterprises during the year ended 31 December 2006. The amount is recorded as income upon receipt.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

10. INCOME TAX EXPENSE

	2006 RMB'000	2005 RMB'000
The tax charge comprises:		
PRC Enterprise Income Taxes ("EIT")	**3,002**	1,389
Over-provision in prior years	**–**	(989)
	3,002	400

The Company and certain of its subsidiaries were subject to EIT at rate of 15% (2005: 15%) as they were classified as Advanced and New Technology Enterprise. The remaining subsidiaries were taxed at the statutory rate of 33% (2005: 33%) of their respective assessable income for the year ended 31 December 2006.

The tax charge for the years can be reconciled to the loss per the consolidated income statement as follows:

	2006 RMB'000	2005 RMB'000
Loss before tax	**(22,087)**	(27,288)
Tax at the domestic income tax rate of 15% (2005: 15%)	**(3,313)**	(4,093)
Tax effect of expenses not deductible and income not taxable for tax purpose	**3,734**	2,707
Tax effect of tax losses not recognised	**1,940**	3,248
Effect of difference tax rates of subsidiaries	**641**	390
Tax effect of tax losses utilised	**–**	(863)
Over-provision in prior years	**–**	(989)
Tax charge for the year	**3,002**	400

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

11. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2006, nor has any dividend been proposed since the balance sheet date (2005: nil).

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the parent is based on the weighted average number of ordinary shares in issue during the year.

	2006	2005
Loss for the year attributable to equity holders of the Company (RMB'000)	**(21,017)**	(28,348)
Weighted average number of ordinary shares in issue (thousands)	**339,577**	339,577
Basic loss per share (RMB)	**(0.062)**	(0.083)

No diluted loss per share has been presented for the two years ended 31 December 2006 and 2005 as there were no diluting events existed during both years.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT

	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 on acquisition of a subsidiary *(Note 28)*	–	–	58	310	368
Disposed through disposals of certain business *(Note 29)*	–	–	–	(253)	(253)
Disposals	–	–	–	(8)	(8)
At 31 December 2005	1,492	3,474	2,632	9,314	16,912
Additions	–	–	–	6,974	6,974
Acquired on acquisition of a subsidiary *(Note 28)*	–	232	382	2,195	2,809
Disposals	–	–	(58)	(63)	(121)
At 31 December 2006	**1,492**	**3,706**	**2,956**	**18,420**	**26,574**
DEPRECIATION					
At 1 January 2005	–	2,575	880	3,572	7,027
Provided for the year	–	421	370	1,609	2,400
Acquired on acquisition of a subsidiary *(Note 28)*	–	–	7	80	87
Eliminated on disposals of certain business *(Note 29)*	–	–	–	(117)	(117)
Eliminated on disposals	–	–	–	(4)	(4)
At 31 December 2005	–	2,996	1,257	5,140	9,393
Provided for the year	66	227	192	3,601	4,086
Eliminated on disposals	–	–	(14)	(39)	(53)
At 31 December 2006	**66**	**3,223**	**1,435**	**8,702**	**13,426**
CARRYING VALUES					
At 31 December 2006	**1,426**	**483**	**1,521**	**9,718**	**13,148**
At 31 December 2005	1,492	478	1,375	4,174	7,519

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

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

Depreciation is provided to write off the carrying values of items over their expected useful economic lives, on straight-line basis, as follows:

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

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

14. INTANGIBLE ASSETS

	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
COST			
At 1 January 2005 and at 31 December 2005	9,274	11,360	20,634
Additions *(Note 30)*	3,000	–	3,000
Acquired on acquisition of subsidiaries *(Note 28)*	5,116	–	5,116
At 31 December 2006	**17,390**	**11,360**	**28,750**
AMORTISATION			
At 1 January 2005	6,991	1,893	8,884
Provided for the year	1,825	3,787	5,612
At 31 December 2005	8,816	5,680	14,496
Provided for the year	1,331	3,787	5,118
Acquired on acquisition of subsidiaries	–	–	–
At 31 December 2006	**10,147**	**9,467**	**19,614**
NET CARRYING VALUES			
At 31 December 2006	**7,243**	**1,893**	**9,136**
At 31 December 2005	458	5,680	6,138

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

14. INTANGIBLE ASSETS (Cont'd)

Computer software was acquired from third parties except for approximately RMB5,116,000 was purchased as part of a business combination in current year.

The intangible assets are amortised on straight-line basis over its estimated useful line as follows:

Computer software	3 to 10 years
Self-developed software	3 years

15. GOODWILL

	RMB'000
COST	
At 1 January 2005	246
Elimination of accumulated amortisation upon application of IFRS 3	(101)
Arising on acquisition of subsidiaries *(Note 28)*	368
Estimated on disposals of subsidiaries	(21)
At 31 December 2005	492
Arising on acquisition of subsidiaries *(Note 28)*	4,993
At 31 December 2006	**5,485**
AMORTISATION	
At 1 January 2005	101
Elimination of accumulated amortisation upon application of IFRS 3	(101)
At 31 December 2005 and 31 December 2006	–
NET CARRYING VALUES	
At 31 December 2006	**5,485**
At 31 December 2005	492

For the purpose of impairment testing, goodwill arising from the acquisition of subsidiaries have been allocated to cash generating units (the "CGUs") in the telecommunication value-added services segment. During the year ended 31 December 2006, the management of the Group determined that there were no impairment of any of its CGUs containing goodwill.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

15. GOODWILL (Cont'd)

Valuation has been conducted by BMI Appraisals Limited, a qualified valuer not connected with the Group, for the purpose of assessing the recoverable amounts. The basis of determining recoverable amounts of these CGUs and their major underlying assumptions are summarized below:

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations, which use cash flow projections based on financial budgets approved by management covering a ten-year period, and discount rates of 17.4% to 18.3%. Cash flow projections during the budget period are based on the budgeted sales, expected gross margins and the general price inflation which affects general expenses during the budget period. Budgeted sales have been estimated for the first five years with annual growth rates ranging from 20% to 80% and for the period beyond the fifth year using an annual growth rates with reference to that of the fifth year. The growth rates and expected cash inflow/outflows which include budgeted sales and gross margin and general expenses have been determined based on industry growth forecasts, past performance of respective subsidiaries and the telecommunication value-added services segment of the Group and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the subsidiaries to exceed their aggregate recoverable amount.

16. INTERESTS IN ASSOCIATES

	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**5,350**	8,400
Share of post-acquisition profits (losses) and reserves, net of dividends received	**963**	(820)
	6,313	7,580

As at 31 December 2005, there was approximately RMB2,498,000 goodwill included in the cost of investments in associates of which was arising on acquisition of an associate in prior years. The goodwill was eliminated in full upon disposal of interest in an associate during the year ended 31 December 2006.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

16. INTERESTS IN ASSOCIATES (Cont'd)

Movements of goodwill included in interests in associates during the year are as follows:

	2006	2005
	RMB'000	RMB'000
At 1 January	**2,498**	2,498
Eliminated upon disposal of interest in an associate	**(2,498)**	–
At 31 December	**–**	2,498

As at 31 December 2006, the Group had interests in the following associates:

Name	Form of business nature	Place of incorporation/ operation	Proportion of nominal value of issued capital/registered capital held by the Group	Class of share held	Principal activities
Guangzhou Lande Information and Technology Company Limited 廣東蘭德科技發展有限公司	Limited liability company	PRC	40%	Contributed capital	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	Limited liability company	PRC	24%	Contributed capital	Trading of electronic products, computer hardware and telecommunication network products and other related services
湖州天運信息技術有限公司	Limited liability company	PRC	39%	Contributed capital	Development of computer applications and trading of computer hardware
杭州天港信息技術有限公司	Limited liability company	PRC	35.1%	Contributed capital	Development of computer applications and trading of computer hardware

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

16. INTERESTS IN ASSOCIATES (Cont'd)

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

	2006 RMB'000	2005 RMB'000
Total assets	**26,965**	21,933
Total liabilities	**(13,009)**	(4,909)
Net assets	**13,956**	17,024
Group's share of net assets of associates	**6,313**	5,082
Revenue	**26,674**	15,671
Profit for the year	**7,794**	4,771
Group's share of results of associates for the year	**1,783**	1,968

17. INVENTORIES

	2006 RMB'000	2005 RMB'000
Computer software and hardware	**2,180**	2,196

As at 31 December 2006, all inventories are stated at cost.

As at 31 December 2005, inventories of approximately RMB2,196,000 were stated at net realisable value.

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2006	2005
	RMB'000	RMB'000
Unlisted securities:		
– equity securities	**120**	–
Analysed for reporting purposes as:		
Current assets	**120**	–

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

19. TRADE RECEIVABLES

Trade receivables consisted of:

	2006	2005
	RMB'000	RMB'000
Trade receivables	**55,245**	74,962
Less: Accumulated impairment	**(11,193)**	(8,791)
	44,052	66,171

Aging analysis of the trade receivables net of impairment losses as at 31 December 2006, is as follows:

	2006	2005
	RMB'000	RMB'000
Less than one year	**43,647**	51,721
Over one year but less than two years	**405**	14,450
	44,052	66,171

There were no specific credit terms granted to the customers.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

20. PREPAYMENTS AND OTHER RECEIVABLES

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

	2006	2005
	RMB'000	RMB'000
Prepayment to suppliers	**8,721**	7,698
Advance to employees	**3,745**	3,462
Other receivables	**120,544**	86,361
	133,010	97,521
Less: Accumulated impairment	**(18,759)**	(7,364)
	114,251	90,157

21. PLEDGED BANK DEPOSITS

	2006	2005
	RMB'000	RMB'000
Pledged bank deposits	**12,000**	19,848

At 31 December 2006, deposits amounting to approximately RMB12,000,000 have been pledged to secure the Group's short-term loan facilities.

At 31 December 2005, deposits amounting to RMB18,245,000 were pledged to secure the Group's note payable facilities. The remaining deposits amounting to RMB1,603,000 have been pledged to secure the Group's short-term contracts for provision of telecommunication solutions. Accordingly, the pledged bank deposits are classified as current assets.

The deposits carry fixed interest rate of 1.80% (2005: 2.07%). The pledged deposits will be released upon settlement of relevant bank borrowings or completion of the service.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

22. TRADE AND OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
Trade payables	**3,598**	45,643
Other payables and accruals	**25,913**	10,173
	29,511	55,816

Aging analysis of the trade payables is as follows:

	2006 RMB'000	2005 RMB'000
Less than one year	**2,941**	41,761
Over one year but less than two years	**657**	3,690
Over two years but less than three years	**–**	168
Over three years	**–**	24
	3,598	45,643

23. SHORT-TERM BORROWINGS

	2006 RMB'000	2005 RMB'000
Unsecured bank loans repayable within one year	**66,000**	74,000
Secured bank loans repayable within one year	**10,800**	–
	76,800	74,000

All bank loans are denominated in RMB.

The bank loans include approximately RMB76,800,000 (2005: RMB58,000,000) fixed-rate borrowings which carry interest ranging from 5.0% to 6.4% (2005: 6.1% to 6.7%) per annum. The remaining bank loans in 2005 were variable-rate borrowings which carried interest ranging from 4.6% to 5.9% per annum.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

23. SHORT-TERM BORROWINGS (Cont'd)

	2006 RMB'000	2005 RMB'000
The bank loans are guaranteed by:		
Chen Ping *(Note a)*	**25,000**	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 b)*	**–**	33,000
Zheda Insigma Group Co. Ltd. (浙江浙大網新集團有限公司) *(Note c)*	**41,000**	–
	66,000	71,000

Notes:

(a) A director of the Company.

(b) A substantial shareholder of the Company during the year ended 31 December 2005.

(c) A company under common control of a director of the Company and also a shareholder of a substantial shareholder of the Company.

The RMB10,800,000 bank loans were secured by the Group's pledged deposits of RMB12,000,000 as at 31 December 2006.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

(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 2006 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 spreading 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 is 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 or variable rates and repayable within one year. The management monitors the movement in market interest rates and reviews such impact on the Group with respect to the Group's interest-bearing borrowing on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

(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's 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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

(e) Fair values of financial assets and financial liabilities

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

25. PAID IN CAPITAL

	Number of shares		Amount	
	2006	2005	**2006**	2005
	'000	'000	**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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

26. RESERVES

(a) Basis of appropriations to reserves

The transfer to statutory surplus reserve and statutory public welfare reserve are based on the net profit under the financial statements prepared in accordance with PRC accounting standards.

(b) 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.

(c) 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.

Balance of the statutory public welfare reserve at 1 January 2006 was transferred to statutory surplus reserve.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

27. UNPROVIDED DEFERRED TAX

The Group has unused tax losses amounted to approximately RMB49,603,000 (2005: RMB36,667,000) 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.

28. ACQUISITION OF SUBSIDIARIES

On 5 January 2006, one of the subsidiaries of the Group acquired 90% of the paid-in capital of 黑龍江群思特通信科技有限公司("黑龍江群思特") whose principal activity is the provision of telecommunication related services.

On 13 January 2006, the Group acquired 90% of the paid-in capital of 杭州賽爾網絡通信技術有限公司 ("賽爾網絡") whose principal activity is the provision of telecommunication related services.

On 15 June 2006, the Group acquired 78% of the paid-in capital of Zhejinag Tianxin Science and Technology Development Company Limited ("Tianxin") and its subsidiaries whose principal activities are the provision of telecommunication related services.

On 11 December 2006, the Group acquired 90% of the paid-in capital of Zhejiang Lan Chuang Information Co. Ltd. ("Lan Chuang") whose principal activity is the provision of telecommunication related services.

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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

28. ACQUISITION OF SUBSIDIARIES (Cont'd)

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

	2006 RMB'000	2005 RMB'000
Net assets acquired		
Interests in associates	**914**	–
Property, plant and equipment	**2,809**	281
Intangible assets	**5,116**	–
Inventories	**687**	–
Trade receivables	**2,607**	40
Prepayments and other receivables	**20,196**	78
Bank balances and cash	**983**	276
Trade and other payables	**(17,237)**	(201)
Bank borrowings	**(120)**	–
	15,955	474
Minority interests	**(3,026)**	(142)
	12,929	332
Discount on acquisitions of subsidiaries	**(672)**	–
Goodwill *(Note 15)*	**4,993**	368
Total consideration is satisfied by cash	**17,250**	700
Net cash outflow arising on acquisition		
Cash consideration	**17,250**	700
Bank balances and cash acquired	**(983)**	(276)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(16,267)**	424

The goodwill arising on the acquisition of the above subsidiaries is attributable to the anticipated profitability of the subsidiaries arising from the provision of telecommunication related services.

黑龍江群思特 contributed approximately RMB545,000 to the Group's turnover and loss of approximately RMB207,000 to the Group's loss for the year between the date of acquisition and the balance sheet date.

賽爾網絡 contributed approximately RMB4,602,000 to the Group's turnover and loss of approximately RMB52,000 to the Group's loss for the year between the date of acquisition and the balance sheet date.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

28. ACQUISITION OF SUBSIDIARIES (Cont'd)

Tianxin and its subsidiaries contributed approximately RMB7,278,000 to the Group's turnover and loss of approximately RMB4,718,000 to the Group's loss for the period between the date of acquisition and the balance sheet date.

Lan Chuang did not contribute to the Group's turnover nor loss to the Group's loss for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed in 1 January 2006, total Group turnover for the year would have been approximately RMB168,868,000, and loss for the year would have been approximately RMB26,843,000. The proforma information is for illustrative purposes only and is not necessarily in indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

29. DISPOSAL OF CERTAIN BUSINESS

During the year ended 31 December 2005, the Group disposed of certain divisions in the business of provision of telecommunication solutions and telecommunication value-added services. The relevant assets disposed of at the date of disposal were as follows:

	2005 RMB'000
Assets disposed of	
Property, plant and equipment	136
Gain on disposal of certain business	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

30. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, the Group set up a new subsidiary in which the Group held 60% equity interests with an independent third party whereas the minority shareholder fulfilled part of its capital contribution in the form of intangible assets of approximately RMB3,000,000 according to the agreement.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

31. CONTINGENT LIABILITIES

Details of guarantee given by the Group as at 31 December 2006 are set out in Note 33. The Group did not have 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:

	2006	2005
	RMB'000	RMB'000
Not longer than one year	**1,314**	1,384
Longer than one year and not longer than five years	–	1,629
	1,314	3,013

33. RELATED AND CONNECTED PARTY TRANSACTIONS

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

	2006	2005
	RMB'000	RMB'000
Income from provision of telecommunication related services to a related company *(Note)*	**1,780**	1,984
Guarantee given by Chen Ping in respect of a bank loan granted to the Group *(Note 23)*	**25,000**	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
Corporate guarantee given by Zheda Insigma Group Co. Ltd. in respect of a bank loangranted to the Group *(Note 23)*	**41,000**	–

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

33. RELATED AND CONNECTED PARTY TRANSACTIONS (Cont'd)

Note:

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

Balances with related parties

Amounts due from related parties included in other receivable as detailed in note 20 are set out below:

Name of related party	Relationship	2006 RMB'000	2005 RMB'000
Insigma Technology Co. Ltd.	A substantial shareholder of the Company	**10,890**	–
浙江大學快威科技集團有限公司	Controlled by a director of the Company	**17,451**	2,540
Minority shareholders		**286**	11,522

The above balances were unsecured, interest free and repayable on demand.

The Group's amounts due to a director/minority shareholders and amount due from associates at the balance sheet date were unsecured, interest free and repayable on demand.

Compensation of key management personnel

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

	2006 RMB'000	2005 RMB'000
Short-term benefits	**753**	1,145
Post-employment benefits	**75**	60
	828	1,205

The remuneration of directors, supervisors and key management is determined by the remuneration committee having regard to the performance of individual and market trends.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

33. RELATED AND CONNECTED PARTY TRANSACTIONS (Cont'd)

Cross guarantee arrangements

During the year ended 31 December 2006, the Company entered into a series of agreements, with the following related parties over which directors of the Company have control to provide corporate guarantee to banks with respect to the loan facilities granted to two such related parties of a maximum amount of RMB80,000,000 in aggregate and another related party will provide corporate guarantee to banks with respect to the loan facilities granted to the Company of a maximum amount of RMB100,000,000.

Parties involved in such arrangements are summarised as follows:

Name of party	Relationship with the Company	Nature of transactions	Maximum amount of guarantee RMB'000
Zheda Insigma Group Co. Ltd.	Under common control of a director of the Company and also a shareholder of a substantial shareholder of the Company	Providing guarantee on the Company's banking facilities	100,000
Zhejiang University Innovation Tuling Information Technology Company Limited	Company under common control of a director of the Company	The Company provided guarantee on banking facilities	50,000
Zheda Innovation Qwave Technology Co. Ltd.	Company under common control of a director of the Company	The Company provided guarantee on banking facilities	30,000

As at 31 December 2006, loan facilities guaranteed by the Company have been utilised to the extent of RMB20,000,000.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

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 consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to consolidated income statement of approximately RMB3,937,000 (2005: RMB2,708,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. GOVERNMENT GRANTS

Government grants of approximately RMB3,252,000 (2005: RMB2,484,000) 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. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation/ operations	Paid upissued registered share capital	Effective interest held by Company		Principal activities
			Directly	Indirectly	
Chengdu Lande E & I Technology Company Limited 成都蘭德電子信息技術有限公司	PRC	RMB1,000,000	55%	–	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	RMB1,000,000	55%	–	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	RMB5,000,000	70%	–	Provision of telecommunication solutions and trading of hardware and computer software

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

36. SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Paid upissued registered share capital	Effective interest held by Company Directly	Effective interest held by Company Indirectly	Principal activities
Guangzhou Landi Electronics Information Technology Company Limited 廣州市蘭笛電子信息技術有限公司	PRC	RMB1,500,000	67%	–	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Zhejiang Sichuang Information Technology Company Limited 浙江思創信息技術有限公司	PRC	RMB30,000,000	90%	–	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	RMB2,000,000	75%	–	Provision of telecommunication related services
Zhejiang Lande Congheng Network Service Company Limtied 浙江蘭德縱橫網絡技術有限公司	PRC	RMB5,000,000	60%	–	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	RMB1,000,000	–	63%	Provision of telecommunication related services
杭州賽爾通信設備有限公司	PRC	RMB1,500,000	90%	–	Provision of telecommunication related services

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

36. SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Paid upissued registered share capital	Effective interest held by Company		Principal activities
			Directly	Indirectly	
浙江蘭創通信有限公司	PRC	RMB5,000,000	90%	–	Provision of telecommunication related services
黑龍江群思特通信科技有限公司	PRC	RMB1,000,000	–	81%	Provision of telecommunication related services
Inhealth Technology Company Limited 浙江浙大網新思創健康科技有限公司	PRC	RMB12,500,000	–	54%	Not yet commenced business
Zhejiang Tianxin Science and Technology Development Company Limited 浙江天信科技發展有限公司	PRC	RMB20,000,000	78%	–	Provision of telecommunication related services
杭州天鼎資訊技術有限公司	PRC	RMB1,000,000	–	70%	Provision of telecommunication related services
杭州大篷車影視傳播有限公司	PRC	RMB1,000,000	–	56%	Not yet commenced business

All subsidiaries are limited liability companies.

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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2006

37. POST BALANCE SHEET EVENTS

On 11 December 2006, the Company entered into a series of agreements and contracts (the "Agreements") by virtue of which the Company agreed to disposal of its entire 90% equity interests in a subsidiary, Zhejiang Sichuang Information Technology co. Ltd. ("Sichuang"), to a director of the Company at a consideration of approximately RMB27,000,000. In the meantime the Company obtained the controlling rights in operating and financing in Sichuang will be continuously considered as a subsidiary of the Company. After the completion of these transaction, there will be no substantial changes in the substance of control over Sichuang and gain the control over Sichuang through certain contractual arrangement. Details of the transactions were set out in an announcement of the Company on 11 December 2006.The completion of such transaction were subject to the approval of the shareholders of the Company at an Extra-ordinary General Meeting.

Subsequent to the balance sheet date, the Company entered into a series of supplemental agreements and contracts to extend the completion date required by the Agreements of obtaining the requisite shareholders' approval from 31 March 2007 to 30 June 2007. Up to the date of this report, the Transactions are not yet completed.

Financial Summary

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**163,752**	118,208	185,639	164,551	95,458
Cost of sales	**(122,070)**	(97,241)	(129,517)	(117,464)	(61,540)
Gross profit	**41,682**	20,967	56,122	47,087	33,918
Other operating income	**12,783**	11,156	1,714	5,257	3,207
Distribution and selling expenses	**(12,533)**	(11,493)	(10,067)	(12,290)	(5,858)
General and administrative expenses	**(61,275)**	(45,459)	(27,471)	(19,172)	(13,558)
Finance costs	**(4,527)**	(4,427)	(4,610)	(3,153)	(1,638)
Share of results of associates	**1,783**	1,968	(1,558)	(542)	-
(Loss) profit before tax	**(22,087)**	(27,288)	14,130	7,187	16,071
Income tax expenses	**(3,002)**	(400)	(3,609)	(785)	(2,847)
(Loss) profit for the year	**(25,089)**	(27,688)	10,521	16,402	13,224
Attributable to:					
-Equity holders of the Company	**(21,017)**	(28,348)	10,296	12,240	11,520
-Minority interests	**(4,072)**	660	225	4,162	1,704
	(25,089)	(27,688)	10,521	16,402	13,224
(Loss) earning per share – Basic (RMB)	**(0.062)**	(0.083)	0.030	0.036	0.038

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**239,084**	274,915	297,310	261,690	193,839
Total liabilities	**(123,131)**	(142,178)	(138,013)	(112,338)	(59,292)
Minority interests	**(15,789)**	(11,556)	(9,768)	(6,723)	(4,158)
Shareholders' equity	**100,164**	121,181	149,529	142,629	130,389