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

Annual Report 2007

* for identification purpose only

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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Corporate Information

DIRECTORS

Executive directors

Mr. Chen Ping *(Chairman)*
Mr. Shi Lie
Mr. Chao Hong Bo
Ms. Geng Hui
Mr. Hu Yang Jun
Mr. Xia Zhen Hai

Independent non-executive directors

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

SUPERVISORS

Supervisors

Mr. Huo Zhong Hui
Mr. Zheng Bing
Ms. Xue Yun

Independent supervisors

Mr. Feng Pei Xian
Mr. Wang Hui

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

Mr. Chao Hong Bo

QUALIFIED ACCOUNTANT

Ms. Chan Ching Yi, Yvonne *FCCA*

COMPANY SECRETARY

Ms. Chan Ching Yi, Yvonne *FCCA*

AUDIT COMMITTEE

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

REGISTERED OFFICE

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108 Gu Cui Road
Hangzhou City
Zhejiang Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN CHINA

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Zhejiang Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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30 Harbour Road
Wanchai
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716, 17th Floor
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183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway
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 2007 Annual Report of the Company and its subsidiaries (together the "Group").

FINANCIAL HIGHLIGHTS

I hereby announce that for the year ended 31 December 2007, the Group realized a turnover of approximately RMB131,442,000 with a net loss of approximately RMB12,856,000.

The Board does not recommend a payment for final dividends for the financial year ended 31 December 2007.

OPERATION REVIEW

In 2007, the Group continued to adjust its business structure. During the year, many of its products and services were at promotion and trial test stage, and they needed actual application in the market to test the maturity of their marketability. With increasing competition in domestic value-added services and prolonged settlement terms requested by operators, the business performance of the Group was affected to a certain extent during the year. Meanwhile, the traditional value-added businesses withered gradually, and market had higher demand for innovative and stylish business design, which have prolonged the period of product development and market promotion. Nevertheless, through a continuous accumulation of technology and market application, the operations of the Group were gradually getting on the right track.

FUTURE PROSPECTS

The Group maintained sound relationship with its business partners and developed its business through close cooperation with operators. In future development planning, the Group will further adjust its product lines within the whole Group based on cost control, putting emphasis on the orientation of its key products, and more effort will be made to the promotion and development of those products that have been launched and well received in the market. Furthermore, the Group will take some measures to divest those products without market potential or cut investment in them. The Group wishes to build a portfolio of core businesses with competitive edge and high return in a short time under the continuous supports from shareholders and business partners.

Finally, on behalf of the Board and the management, I would like to express my gratitude to the support of our business partners, customers and shareholders.

Chen Ping
Chairman

31 March 2008
Hangzhou, the PRC

Management Discussion and Analysis

OPERATION REVIEW

1. Review of operating results for the year

For the year ended 31 December 2007, the audited consolidated turnover of the Group was approximately RMB131,442,000, representing a decrease of approximately RMB32,310,000, or approximately 19.73% as compared with that of 2006.

The audited net loss attributable to equity holders of the Company for the year ended 31 December 2007 was approximately RMB12,856,000, comparing to the audited net loss attributable to equity holders of the Company for the year ended 31 December 2006 of approximately RMB21,017,000.

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 leads to be the driver of the Group's future growth.

2. Product and business development

In 2007, the Group further refined the product structure of its value-added business line by putting emphasis on the development of competitive products, for instance, the short message name card service based on the Number 114 Bai Shi Tong service provided by China Telecom, the Kai Ji Tong service and the coming call assistant service based on the mobile communication service and the missed call notification service based on the fixed-line telephone service. Taking into account the investment status, the Company will reduce spending on those products and projects with large investment amount, longer return period and less potential, or adjust the operational model and business strategy to concentrate resources on the development of those competitive products and services. During the year, the Company maintained sound cooperation relationship with operators and promoted its products through the operators' distribution networks and channels.

At the same time, as for the business of its operation support system, the enterprise information management system developed by the Group for China Unicom was put into application in several provinces, and received positive response. The Group also entered into contracts for project developing a synergistic office system in Tianjin, Anhui, Zhejiang and Tibet during the year.

Management Discussion and Analysis (Cont'd)

3. Investment and cooperation

In 2007, pursuant to the operation strategy of optimizing the allocation of resources and minimizing the product structure adopted by the Company, the Group and its subsidiaries subdivided and classified their businesses, in order to optimize the product structure under the situation that the resources were limited; for those not consistent with our operation strategy, or need large investment but with long return period, the Company adopted the operating mode based on limiting costs and disengaging form. For this purpose, during the year, the Company gradually disposed its equity interests in Shanghai Haigang Communication Technology Company Limited (上海海港通信技術有限公司), Guangzhou Landi Electronics Information Technology Company Limited (廣州蘭笛電子信息技術有限公司), Zhejiang Lande Xinyi Information Technology Company Limited (浙江蘭德新易信息技術有限公司), Hangzhou Saier Network Communications Technology Company Limited (杭州賽爾網絡通信技術有限公司) and Hefei Lande Tong Ling Technology Company Limited (合肥蘭德通靈科技有限公司). Through the foresaid adjustment, the Company avoided the homogenization of its intra business, improved the business conversion and positioning; meanwhile, the disposal of such equity interests which did not yield income or had little potential could generate cash flow for developing and promoting the key product lines.

4. Employees information

As at 31 December 2007, the Group had approximately 370 (2006: 350) employees in total. The total staff costs of the Group for the year amounted to approximately RMB14,319,000 (2006: RMB11,697,000).

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.

FINANCIAL REVIEW

- The Group maintained creditable financial conditions. For the year ended 31 December 2007, the Group was mainly financed by proceeds generated from daily operations and bank borrowings.

- As at 31 December 2007, the Group's cash and bank deposits balances amounted to approximately RMB13,955,000 (2006: RMB31,546,000).

- As at 31 December 2007, the Group had no short-term borrowings (2006: RMB76,800,000).

- As at 31 December 2007, the Group had a total asset value of approximately RMB179,796,000 (2006: RMB239,084,000).

- As at 31 December 2007, the Group had current liabilities of approximately RMB78,568,000 (2006: RMB123,131,000).

- As at 31 December 2007, the Group had equity attributable to equity holders of the Company of approximately RMB87,308,000 (2006: RMB100,164,000).

- As at 31 December 2007, the Group had minority interests of approximately RMB13,920,000 (2006: RMB15,789,000).

- As at 31 December 2007, the Group had a gearing ratio (i.e. the ratio of liabilities to total assets) of approximately 43.70% (2006: 51.50%).

- As at 31 December 2007, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 50.10% (2006: 60.17%).

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

Management Discussion and Analysis (Cont'd)

- As at 31 December 2007, no bank deposits were pledged to secure general banking facilities granted to the Group (2006: RMB12,000,000).

- As at 31 December 2007, the Group provided no corporate guarantee to secure general banking facilities granted to related company (2006: RMB20,000,000).

FUTURE PROSPECTS

1. Orders in hand/status in sales contract

The orders in hand of the Group mainly comprised the capacity expansion projects for the management support system in various provinces and operators' synergistic office business. For the value-added business, the service of short message business card based on the Number 114 Bai Shi Tong provided by China Telecom has been widely used in the market, the number of customers is increasing rapidly, business of Kai Ji Tong and call-in assistant and the missed call notification have been run in several areas, the Company is actively expanding the service function and application scope of its products, making use of market opportunities to put more efforts on the promotion, linking up the industrial application to provide timely and accurate service for customers.

2. Prospects of new business and new products

Regarding value-added business, the Group will keep the revenue from the traditional value-added business, such as short messages, voice, secretary platform, WAP, etc, and further develop and research the innovative service contents and modes as demanded by the market, as thus to focus on improving the combination of internet and mobile communication application. The development sped up in respect of the cooperation with Telecom Number Bai Shi Tong regarding business such as enterprise alliance, short message business card, map business card, etc.

Apart from further development of its existing operations, the Company also intends to expand the existing product portfolio to other provinces in China, and will continue to develop various products for full-scale operation, which include the following:

- Promotion and provision of Telecom Number Bai Shi Tong service throughout China: entering into contracts for the promotion and provision of Telecom Number Bai Shi Tong service in other PRC provinces benefiting from the successful experience in Zhejiang Province. The services available for promotion and provision include: enterprise SMS business card, enterprise map business card, enterprise Bai Shi Tong alliance, personal communication assistant and enterprise Telecom Number Bai Shi Tong call centre;

Management Discussion and Analysis (Cont'd)

- Internet Information Integrated Service System: providing 114 service centres in the principal provinces of China with Internet integrated information search service based on the established vertical search platform, so as to bring down the operational difficulty and cost of 114 integrated information service and enrich the contents of the service;

- Enterprise brand-name interactive platform: establishing a leading on-line and off-line interactive exhibition platform well-recognised in China cooperating with the 114 service centres in the principal provinces of China, to provide enterprises with such services as keyword ranking, real brand-name, homepage custody, DIY enterprise information publishing, customer evaluation follow-up and Click-N-Dial, etc.;

- Easy recharge small-amount payment alliance: establishing butt-joint with basic operators in the principal provinces of China based on the existing easy recharge small amount payment platforms, to explore every possible opportunity existing on the Internet and benefit from a great number of payment transactions.

The Company is also providing comprehensive maintenance and technical supports for the information system of Telecom operators (China Telecom, China Mobile, China Unicom, China Netcom and so on). We are developing the office coordinating system for China Unicom based on the existing management support system platform, developing the workflow engine system for China Mobile based on the uniform information platform, and providing Northern Telecom with OA system maintenance service, capacity expansion for MSS system, capacity expansion of MSS system and the development of project evaluation platform software. In addition, we are developing the application software of SIP prepaid system and broadband gateway website system for China Netcom.

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 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. Shi Lie, aged 43, 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.

Mr. Chao Hong Bo, aged 44, received a bachelor degree of engineering from Beijing University of Posts and Telecommunications in 1985 and a master degree of economics from Renmin University of China in 1987. After graduation, Mr. Chao worked as a research assistant in State Bureau of Commodity Prices of the PRC until 1993. During the period between 1993 and 1999, Mr. Chao was the vice editorial director of National Development and Reform Commission of the PRC (previously known as (State Planning Commission of the PRC)).From 1999 to 2001, he has been serving as the chief executive director of Guoheng Shengxing Media Science Group Company Limited, a substantial shareholder of the Company. Mr. Chao was appointed as an executive Director in July 2007.

Ms. Geng Hui, aged 38, graduated from Zhejiang University with a master degree in engineering management. Ms. Geng was the assistant manager of the corporate management department and investment development department of Shenzhen Special Economic Zone Development (Group) Company as well as the manager of the customer service and sales department and assistant general manager of United Securities Co., Ltd., Hua Qiang Road North, Shenzhen branch. In February 2004, she was appointed as the manager of the finance department of Insigma Technology Co. Ltd. and was promoted to the financial controller in April 2005. Ms. Geng was appointed as an executive Director in September 2007.

Directors, Supervisors and Senior Management (Cont'd)

Mr. Hu Yang Jun, aged 34, graduated with a bachelor degree from Anhui Normal University with majors in Chinese Language and Literature and minors in International Trade. Mr Hu was the manager of the import and export division of Zhejiang Dongfang Group and the deputy general manager of Zhejiang Ju Neng Dongfang Holdings Company Limited. Mr. Hu joined the Company in February 2004.

Mr. Xia Zhen Hai, aged 34, graduated with a PhD degree in engineering from Zhejiang University. He is also now the senior member of International Financial Management Association. From 2001 to 2005, Mr. Xia served at the Shanghai office of JS Cresvale Securities International Limited. From 2005 to 2007, he was the representative of Samsung Securities Co. Ltd., Shanghai office. Mr. Xia is now the legal representative and executive director of the Shanghai Longtail Investment Management Co., Ltd. Mr. Xia was appointed as an executive Director in September 2007.

Independent non-executive directors

Mr. Zhang De Xin, aged 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, aged 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, aged 37, 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. Huo Zhong Hui, aged 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.

Mr. Zheng Bing, aged 37, graduated from the School of Computer and Control Engineering of Daqing Petroleum Institute and furthered his study at the graduate school of the School of Electronic and Information Engineering as well as the School of Communication Engineering of Huazhong University of Science & Technology. Mr. Zheng was the manager of the development department of Wuhan Dongfang High Technology Research Institute from 1997 to 1999 and has been rendering his service in relation to program development and project management for the Company since 2000.

Ms. Xue Yun, aged 42, received a bachelor degree and a master degree of economics from Xiamen University in 1986 and 1988 respectively. She was a teacher at the School of Accounting of the Xiamen University from September 1986 to July 1988, the financial supervisor of the finance department of Xiamen United Development (Group) Co., Ltd. from September 1991 to March 1993, the finance manager of Huatong International China Merchants Group Company Limited from March 1994 to January 2001 and the financial controller of Huatong International China Merchants Group Company Limited from January 2002 up to now. Ms. Xue joined the Company in September 2007.

Independent supervisors

Mr. Feng Pei Xian, aged 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 Computer Equipment". Mr. Feng is now the Chief Secretariat of the Zhexiang Computer User Association and senior reporter of the China Computer News in Zhexiang. Mr. Feng joined the Company in April 2001.

Mr. Wang Hui, aged 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.

SENIOR MANAGEMENT

Ms. Liu Qiao Ping, aged 34, is the Company's chief executive officer. Ms. Liu graduated from the University of Petroleum and is a graduate in master of business administration from the famous Central European International Industrial & Commercial 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.

Directors, Supervisors and Senior Management (Cont'd)

Mr. Jin Lian Fu, aged 61, is the vice president of the Company. Mr. Jin is responsible for administrative management and project 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. Wang Lin Hua, aged 32, is the Company's financial controller and is responsible for the whole spectrum of corporate finance. Mr. Wang graduated from the Xian University of Finance and Economics in Accounting, and is currently a master candidate in professional accounting in Zhongnan University of Economics and Law, and he has over 9 years of experience in corporate finance field. Mr. Wang joined the Company in January 2008.

Mr. Wang Yong Gui, aged 33, is the secretary to the Board 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, aged 33, is the qualified accountant and company secretary of the Company. Miss Chan is the fellow 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.

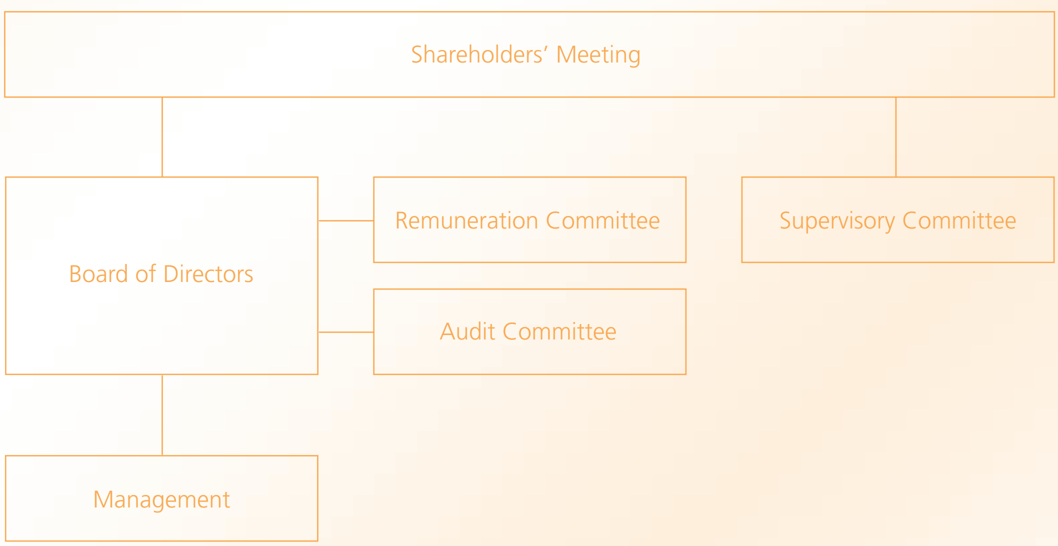
Corporate Governance Report

During the report period, the Company continued to pursue 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 (the "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 report period, the Company ensured 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 Regulations 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 the report period, nine 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)*	9/9
Xue Shi Cheng	3/9
Shi Lie	7/9
Chao Hong Bo	4/9
Pan Lichun	3/9
Geng Hui	5/9
Hu Yang Jun	6/9
Xia Zhen Hai	3/9
Independent non-executive director	
Zhang De Xin	9/9
Cai Xiao Fu	8/9
Gu Yu Lin	9/9

A.1.2	The Company sets up the office of Board secretary, which is responsible for preparing the matters of the Board. 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.

Corporate Governance Report (Cont'd)

	A.1.3	The Company observes the requirements 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.
	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	Chairman 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 authorization 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.

Corporate Governance Report (Cont'd)

	A.2.4 to A.2.6	The Chairman appoints the secretary of Board of directors to be responsible for agenda, and authorizes 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 judgment effectively and independently.
	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 and removal 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 explanation.
	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.

Corporate Governance Report (Cont'd)

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.
	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 directors in time, so that they have sufficient time to consider and understand situation under which decision is 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.

Corporate Governance Report (Cont'd)

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 directors 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.
	B.1.3 and B.1.4	Scope of official 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.

Corporate Governance Report (Cont'd)

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 the 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 official duty, is open for investor's inquiring of the Company.

Corporate Governance Report (Cont'd)

C.3.5 In the 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 Company 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 official 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 the 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 proposed 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 12 October 2007. Nine directors were appointed and entered into a three year service agreement with the Company with the provision of re-election for appointment.

In 2007, Mr. Xue Shi Cheng and Ms. Pan Lichun both resigned as executive directors. During the year, the Company appointed Mr. Chao Hong Bo, Mr. Xia Zhen Hai and Ms. Geng Hui as executive directors.

The current members of the Board include:

Executive directors

Mr. Chen Ping *(Chairman)*
Mr. Shi Lie
Mr. Chao Hong Bo
Ms. Geng Hui
Mr. Hu Yang Jun
Mr. Xia Zhen Hai

Independent non-executive directors

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

For the year 2007, 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)*	–	
Xue Shi Cheng	–	–
Shi Lie	20	–
Chao Hong Bo	10	–
Pan Lichun	10	–
Geng Hui	10	–
Hu Yang Jun	20	–
Xia Zhen Hai	10	–
Zhang De Xin	20	–
Cai Xiao Fu	20	–
Gu Yu Lin	20	–

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.

During the year, the audit committee convened five meetings and reviewed the final results for the year 2006, first three quarterly results for the year 2007 and the transaction of structure reorganization involving Zhejiang Sichuang Information Technology Co. Ltd.（浙江思創信息技術有限公司）("Sichuang"). The audit committee also communicate with the auditors in relation to the financial positions and internal audit of the Company.

Corporate Governance Report (Cont'd)

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	5/5
Zhang De Xin	5/5
Cai Xiao Fu	5/5

An audit committee meeting was held on 31 March 2008 to consider and discuss the results, financial conditions, principal accounting and internal audit affairs for the year ended 31 December 2007. Questions focused on auditor's report are asked on relevant financial officers.

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 RMB550,000 for remunerations in respect of audit services provided by the Company's auditors.

COMMUNICATIONS 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

31 March 2008
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 2007.

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 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2007 and its state of affairs as at that date are set out in the consolidated financial statements on pages 38 to 93 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 2007, the Group did not have profit available for distribution to equity holders of the Company (2006: RMBnil).

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS AND INTERESTS CAPITALISATION

Particulars of bank loans are set out in note 24 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 38 to 93 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 50.12% of the Group's turnover and the largest customer of the Group accounted for approximately 39.21% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 80.87% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 71.81% 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 2007

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2007 and the Group's assets and liabilities as at 31 December 2003, 2004, 2005, 2006 and 2007 is set out on page 94 of the annual report.

Report of the Directors (Cont'd)

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 *(resigned on 20 July 2007)*
Mr. Shi Lie
Mr. Chao Hong Bo *(appointed on 20 July 2007)*
Ms. Pan Lichun *(resigned on 12 October 2007)*
Ms. Geng Hui *(appointed on 20 September 2007)*
Mr. Hu Yang Jun
Mr. Xia Zhen Hai *(appointed on 20 September 2007)*

Independent non-executive directors

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

Supervisors

Mr. Huo Zhong Hui
Mr. Zheng Bing *(appointed on 20 September 2007)*
Ms. Xue Yun *(appointed on 20 September 2007)*
Mr. Fu Liang Yuan *(resigned on 12 October 2007)*
Ms. Liu Cui Yu *(resigned on 12 October 2007)*

Independent supervisors

Mr. Feng Pei Xian
Mr. Wang Hui

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

An Extraordinary General Meeting was held on 12 October 2007 for re-elections and appointment of directors and supervisors. Nine directors and five supervisors were appointed. Each appointed director and supervisor entered into a three year service agreement with the Company until 11 October 2010.

In the year 2007, Mr. Xue Shi Cheng and Ms Pan Lichun resigned as executive directors .The Board appointed. Mr. Chao Hong Bo, Ms. Geng Hui and Mr. Xia Zhen Hai as executive directors.

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

Saved as disclosed above, none of 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the directors, supervisors and senior management are set out on pages 10 to 13 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 7 and 8 to the consolidated financial statements.

DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2007, 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%
Chief Executive Officer				
Liu Qiao Ping	Personal	Beneficial owner	10,235,340	3.01%

Report of the Directors (Cont'd)

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

Save as disclosed herein, during the year ended 31 December 2007, none of the directors, supervisors or chief executives was granted options to subscribe for shares of the Company. As at 31 December 2007, 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 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 2007, 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:

Report of the Directors (Cont'd)

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	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%

On 23 July 2007, the Company's four shareholders, namely Mr. Shi Chun Hua, Mr. Wang Jin Cheng, Mr. Chen Chun, and Mr. Huo Zhong Hui, had respectively entered into the sale and purchase agreements (the "S&P Agreements") with a subscriber, Shanghai Longtail Investment Management Co., Ltd (the "Subscriber"). Pursuant to the S&P Agreements, the shareholders concerned agreed to sell and the Subscriber agreed to purchase an aggregate of 17,148,638 shares of the Company. The resolution for the transfer was reviewed and approved by the Company in the extraordinary general meeting held on 12 October 2007.

On 23 July 2007, the Company also entered into the capital increase and subscription agreement (the "Subscription Agreement") with the Subscriber. Pursuant to the Subscription Agreement, the Company agreed to (i) increase its registered share capital from RMB33,957,700 to RMB35,654,617; and (ii) allot and issue 16,969,170 shares to the Subscriber at a price of RMB0.37 per share.

For details of the transactions, please refer to the Company's announcement issued on 24 July 2007.

The completion of the transactions and, hence, the change in shareholding structure are subject to the approval of the Ministry of Commerce in the PRC.

Report of the Directors (Cont'd)

CONNECTED TRANSACTIONS

During the year, the Group had entered into the following connected transactions:

1. 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 at the balance sheet date, no guarantee was provided by the Company pursuant to the above-mentioned arrangement.

2. On 11 December 2006, the Company entered into agreements and contracts with, *inter alia*. Sichuang and Mr. Chen Ping (the "Sichuang Restructure Agreements"), pursuant to which the Company would transfer all of its 90% equity interest in Sichuang to Mr. Chen Ping at RMB27,000,000. The Company was granted the right to acquire 90% equity interest in Sichuang in the future. Sichuang would still be regarded as a 90% owned subsidiary of the Company upon the completion of the above reorganisation. The reorganisation of Sichuang would not cause monetary gain or loss to the Company, nor had any significant impact on consolidated financial statements of the Company. This transaction was to ensure Sichuang meeting the required qualification of a value-added telecommunications business operator. The transaction was approved at the general meeting held on 23 November 2007. During the year, no service fees under the Sichuang Restructure Agreements were paid or payable by Sichuang to the Company.

3. On 20 December 2007, the Company entered into an agreement with Mr. Jin Lian Fu ("Mr. Jin") and other shareholders of Zhejiang Lan Chuang Information Co. Ltd. (浙江蘭創通訊有限公司)("Lan Chuang"), pursuant to which, the shareholders would increase their capital contribution in an aggregate amount of RMB5,000,000 in proportion to their respective shareholdings. Pursuant to the framework agreement entered into between the Company and Mr. Jin, the Company beneficially owns a 85% equity interest of Lan Chuang. To complete the procedures required for the capital increase, the Company agreed to provide Mr. Jin a loan of RMB4,250,000 with nil interest for injecting capital into Lan Chuang by Mr. Jin. The transaction was approved at the general meeting held on 29 February 2008.

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 2007.

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 2007 and the annual report of the Group for the year 2006. The audit committee also reviewed the annual report of the Group for the year 2007.

AUDITORS

During the year, SHINEWING (HK) CPA Limited was reappointed as auditors of the Company.

On behalf of the Board
Chen Ping
Chairman

31 March 2008
Hangzhou, the PRC

Report of the Supervisory Committee

The Supervisor Committee is pleased to present the annual report for the year of 2007.

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

31 March 2008
Hangzhou, the PRC

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, 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 38 to 93, which comprise of the consolidated balance sheet as at 31 December 2007, 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 and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing issued by the International Accounting Standard Boards. 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 entity's 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 2007, 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
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
31 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	6	**131,442**	163,752
Cost of sales		**(88,964)**	(122,070)
Gross profit		**42,478**	41,682
Other operating income		**10,951**	12,783
Distribution and selling expenses		**(12,795)**	(12,533)
General and administrative expenses		**(51,509)**	(61,275)
Finance costs	9	**(2,781)**	(4,527)
Share of results of associates		**901**	1,783
Loss before taxation		**(12,755)**	(22,087)
Taxation	10	**(1,232)**	(3,002)
Loss for the year	11	**(13,987)**	(25,089)
Attributable to:			
Equity holders of the Company		**(12,856)**	(21,017)
Minority interests		**(1,131)**	(4,072)
		(13,987)	(25,089)
Dividend	12	**–**	–
Loss per share			
Basic	13	**RMB(0.038)**	RMB(0.062)

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**10,133**	13,148
Intangible assets	15	**6,799**	9,136
Goodwill	16	**3,484**	5,485
Interests in associates	17	**2,221**	6,313
Other non-current assets		**328**	351
		22,965	34,433
Current assets			
Inventories	18	**505**	2,180
Contract work in progress		**1,431**	11,253
Available-for-sale investments	19	**–**	120
Trade receivables	20	**35,185**	44,052
Prepayments and other receivables	21	**104,467**	114,251
Amounts due from associates		**1,288**	1,249
Pledged bank deposits	22	**–**	12,000
Bank balances and cash		**13,955**	19,546
		156,831	204,651
Current liabilities			
Trade and other payables	23	**71,834**	29,511
Receipt in advance from customers		**1,204**	9,200
Amount due to a director		**3,098**	3,854
Amounts due to minority shareholders		**–**	1,092
Current tax liabilities		**2,432**	2,674
Short-term borrowings	24	**–**	76,800
		78,568	123,131
Net current assets		**78,263**	81,520
NET ASSETS		**101,228**	115,953
Capital and reserves			
Paid in capital	25	**33,958**	33,958
Reserves	26	**53,350**	66,206
Equity attributable to the equity holders of the Company		**87,308**	100,164
Minority interests		**13,920**	15,789
TOTAL EQUITY		**101,228**	115,953

The consolidated financial statements on pages 38 to 93 were approved and authorised for issue by the Board of Directors on 31 March 2008 and are signed on its behalf by:

CHEN PING
Director

XIA ZHEN HAI
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	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 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 and 1 January 2007	33,958	71,988	10,567	–	(16,349)	100,164	15,789	115,953
Loss for the year	–	–	–	–	(12,856)	(12,856)	(1,131)	(13,987)
Disposal of subsidiaries	–	–	–	–	–	–	(1,488)	(1,488)
Capital contributions from minority shareholders	–	–	–	–	–	–	750	750
At 31 December 2007	33,958	71,988	10,567	–	(29,205)	87,308	13,920	101,228

Consolidated Cash Flow Statements

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Loss before taxation		**(12,755)**	(22,087)
Adjustments for:			
Finance costs		**2,781**	4,527
Interest income		**(436)**	(586)
Impairment loss on loans and receivables		**9,195**	13,797
Discount on acquiring of subsidiaries		**–**	(672)
Impairment loss on intangible assets		**337**	–
Impairment loss on property, plant and equipment		**583**	–
Depreciation of property, plant and equipment		**3,390**	4,086
Amortisation of intangible assets		**3,838**	5,118
Share of results of associates		**(901)**	(1,783)
Write down of inventories to net realizable value		**1,439**	–
Gain on disposal of interests in associates		**(1,582)**	(2,196)
(Gain) loss on disposal of property, plant and equipment		**(1,054)**	16
Loss on disposal of available-for-sales investments		**56**	–
Loss on disposal of subsidiaries	*29*	**186**	–
Operating cash flows before movements in working capital		**5,077**	220
Decrease in inventories		**157**	703
Decrease in contract work in progress		**7,997**	4,414
Decrease in trade receivables		**4,449**	22,324
Increase in prepayments and other receivables		**(3,310)**	(15,293)
(Increase) decrease in amounts due from associates		**(39)**	484
Decrease in long-term prepayment and other non-current assets		**23**	1,108
Increase (decrease) in trade and other payables		**45,211**	(43,542)
Decrease in receipt in advance from customers		**(7,996)**	(1,573)
(Decrease) increase in amount due to a director		**(756)**	3,854
CASH GENERATED FROM (USED IN) OPERATIONS		**50,813**	(27,301)
Interest paid		**(2,781)**	(4,527)
PRC income tax paid		**(1,474)**	(1,917)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**46,558**	(33,745)

Consolidated Cash Flow Statements (Cont'd)

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
INVESTING ACTIVITIES			
Interest received		**436**	586
Acquisition of subsidiaries, net of cash acquired	*28*	**–**	(16,267)
Proceeds from disposal of subsidiaries	*29*	**2,377**	–
Purchase of property, plant and equipment		**(3,348)**	(6,974)
Purchase of intangible assets		**(1,838)**	–
Increase in available-for-sale investments		**–**	(120)
Proceeds from disposal of property, plant and equipment		**2,512**	52
Proceeds from disposal of associates	*17*	**6,575**	6,160
Decrease in pledged bank deposits		**12,000**	7,848
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**18,714**	(8,715)
FINANCING ACTIVITIES			
New bank borrowings raised		**–**	76,800
Receipt in advance for subscription of shares		**6,279**	–
Repayment of bank borrowings		**(76,800)**	(74,120)
(Decrease) increase in amounts due to minority shareholders		**(1,092)**	1,092
Capital contribution from minority shareholders		**750**	2,279
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(70,863)**	6,051
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,591)**	(36,409)
CASH AND CASH EQUIVALETNS AT THE BEGINNING OF THE YEAR		**19,546**	55,955
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**13,955**	19,546

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

Zheda Lande Scitech Limited (the "Company") was 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 6th 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IRFSs")

In the current year, the Group has adopted all of the new and revised standards, amendment and interpretations ("new IFRSs") 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 2007.

The adoption of the new IFRSs had no material effect on how the results and financial position for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

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

International Accounting Standard ("IAS") 1 (Revised)	Presentation of Financial Statements[4]
IAS 27 (Revised)	Consolidation and Separate Financial Statements[5]
IAS 23 (Revised)	Borrowing Costs[1]
IFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[4]
IFRS 3 (Revised)	Business Combinations[5]
IFRS 8	Operating segments[4]
IFRIC-Int 11	IFRS 2: Group and Treasury Share Transactions[1]
IFRIC-Int 12	Service Concession Arrangements[2]
IFRIC-Int 13	Customer Loyalty Programmes[3]
IFRIC-Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1] Effective for annual periods beginning on or after 1 March 2007.
[2] Effective for annual periods beginning on or after 1 January 2008.
[3] Effective for annual periods beginning on or after 1 July 2008.
[4] Effective for annual periods beginning on or after 1 January 2009
[5] Effective for annual periods beginning on or after 1 July 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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 (excluding goodwill) of 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 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations

The acquisition of businesses is 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.

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.

Interests 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interests in associates (Cont'd)

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 business 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 business 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 arising from an acquisition 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.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised 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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 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.

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 recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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.

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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Internally-generated intangible assets – research and development expenditure (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

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

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.

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.

Construction 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Construction contracts (Cont'd)

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.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as amounts due from contract customers. Where progress billings exceed contract costs incurred to date, plus recognised profits less recognised losses, the surplus is treated as amounts due to contract customers.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. The financial assets of the Group are mainly classified as AFS or loans and receivables.

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 (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) 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.

AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as FVTPL, 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.

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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

Loans and receivables

Trade receivables, other receivables, amounts due from associates, pledged bank deposits and bank balances and cash 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 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.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, other receivables and amounts due from associates, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

For financial assets carried at amortised cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods;

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivable is considered 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 2007

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.

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. Financial liabilities of the Group are mainly other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, trade and other payables, amounts due to a director and minority shareholders, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating lease.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Exchange differences are recognized in profit or loss in the period in which they arise.

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.

Borrowing costs

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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

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

Impairment loss on loans and receivables

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

Write-down of inventories to net realisable value

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

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.

Outcome of contracts for service

The Group determines whether outcome of a service contract can be estimated reliably. This require a continuous estimation of the total contract revenue and costs and stage of completion and the assessment of the probability of the future economic flows to the Group.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)		
Trade receivables	**35,185**	44,052
Other receivables	**93,153**	105,530
Amounts due from associates	**1,288**	1,249
Pledged bank deposits	**–**	12,000
Bank balances and cash	**13,955**	19,546
	143,581	182,377
Available-for-sale financial assets	**–**	120
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	**65,555**	29,511
Amount due to a director	**3,098**	3,854
Amounts due to minority shareholders	**–**	1,092
Short-term borrowings	**–**	76,800
	68,653	111,257

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

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

Categories of financial instruments (Cont'd)

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

(a) Credit risks

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 and 2007 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. As at 31 December 2007, all the Group's interest-bearing borrowings have been fully repaid. 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.

Since the Company's exposure to interest rate risk is minimal and no sensitivity analysis has been prepared.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

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

(d) Liquidity risk

Internally generated cash flow and bank loans are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to fixed interests rate and are renewable annually. The Group'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. The directors of the Group are satisfied that the Group will be able to meet in full its financial obligations as and when fall due in the foreseeable future.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	On demand or within 3 months RMB'000	3 months to 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2007 RMB'000
2007					
Trade and other payables	**65,555**	**–**	**–**	**65,555**	**65,555**
Amount due to a director	**3,098**	**–**	**–**	**3,098**	**3,098**
	68,653	**–**	**–**	**68,653**	**68,653**

	On demand or within 3 months RMB'000	3 months to 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2006 RMB'000
2006					
Trade and other payables	29,511	–	–	29,511	29,511
Amount due to a director	3,854	–	–	3,854	3,854
Amounts due to minority shareholders	1,092	–	–	1,092	1,092
Short-term borrowings	–	79,581	–	79,581	76,800
	34,457	79,581	–	114,038	111,257

5. 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 due to their immediate or short-term maturities.

(f) Capital risk management

The primary objective of the Group's capital risk management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group manages its capital structure to ensure optional capital structure and shareholder returns, using the capital to promote their products and services as ultimately increasing the market share in the industry. Further capital may be used to increase its horizon.

The Group monitors capital by maintaining an adequate balance of different components of capital. Capital of the Group comprises all components of equity, which include share capital and all other reserves, borrowings and bank balances and cash. The Group's approach to capital management remains unchanged throughout the years. The Group has no convenant with banks for the banking facilities granted.

6. 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 2007

6. 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	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Segment turnover	**14,135**	20,118	**61,041**	91,694	**56,266**	51,940	**131,442**	163,752
Segment results	**(2,385)**	11,019	**10,125**	(1,132)	**21,943**	19,262	**29,683**	29,149
Unallocated revenue							**12,096**	12,197
Unallocated expenses							**(53,090)**	(61,275)
Share of results of associates	**–**	–	**183**	2,062	**718**	(279)	**901**	1,783
Finance costs							**(2,781)**	(4,527)
Interest income							**436**	586
Loss before taxation							**(12,755)**	(22,087)
Taxation							**(1,232)**	(3,002)
Loss for the year							**(13,987)**	(25,089)
Segment assets	**9,226**	21,607	**8,720**	24,301	**71,064**	51,848	**89,010**	97,756
Interests in associates	**57**	5,594	**596**	–	**1,568**	719	**2,221**	6,313
Unallocated assets							**88,565**	135,015
Total assets							**179,796**	239,084
Segment liabilities	**1,022**	523	**978**	10,044	**19,983**	21,097	**21,983**	31,664
Unallocated liabilities							**56,585**	91,467
Total liabilities							**78,568**	123,131
Other segment information:								
Capital expenditures	**560**	4,950	**110**	64	**4,516**	1,960	**5,186**	6,974
Depreciation and amorisation	**3,269**	6,953	**103**	56	**3,856**	2,195	**7,228**	9,204
Impairment loss on loans and receivables	**1,913**	2,112	**–**	–	**–**	290	**1,913**	2,402
Unallocated impairment loss on loans and receivables							**7,282**	11,395
Total impairment loss on loans and receivables							**9,195**	13,797
Write-down of inventories to net realisable value	**–**	–	**1,439**	–	**–**	–	**1,439**	–
impairment loss on property, plant and equipment	**–**	–	**–**	–	**583**	–	**583**	–
Impairment loss on intangible assets	**–**	–	**–**	–	**337**	–	**337**	–
Gain on disposal of property, plant and equipment	**–**	–	**–**	–	**(21)**	–	**(21)**	–
Unallocated (gain) loss on disposal of property, plant and equipment							**(1,033)**	16
Total (gain) loss on disposal of property, plant and equipment							**(1,054)**	16

6. 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.

7. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The details of directors' remuneration of each of eleven (2006: eight) directors and supervisors' emoluments of each of seven (2006: five) supervisors for the years ended 31 December 2007 and 2006 are set out below:

For the year ended 31 December 2007

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:				
Mr. Chen Ping	–	–	–	–
Mr. Xue Shi Cheng *(Note 1)*	–	–	–	–
Mr. Shi Lie	–	20	–	20
Mr. Hu Yang Jun	–	20	–	20
Ms. Pan Lichun *(Note 4)*	–	10	–	10
Mr. Chao Hong Bo *(Note 2)*	–	10	–	10
Ms. Geng Hui *(Note 3)*	–	10	–	10
Mr. Xia Zhen Hai *(Note 3)*	–	10	–	10
Independent non-executive directors:				
Mr. Cai Xiao Fu	–	20	–	20
Mr. Zhang De Xin	–	20	–	20
Mr. Gu Yu Lin	–	20	–	20
Supervisors				
Mr. Huo Zhong Hui	–	3	–	3
Mr. Fu Liang Yuan *(Note 4)*	–	–	–	–
Ms. Liu Cui Yu *(Note 4)*	–	–	–	–
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Mr. Xie Yun *(Note 3)*	–	3	–	3
Mr. Zheng Bing *(Note 3)*	–	–	–	–
Total	–	152	–	152

Notes:

(1) Resigned on 20 July 2007.

(2) Appointed on 20 July 2007.

(3) Appointed on 20 September 2007.

(4) Resigned on 12 October 2007.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

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

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

No directors or supervisors waived any emoluments for the two years ended 31 December 2007.

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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

8. 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 do not include directors (2006: two directors) of the Company, whose emoluments have been included in Note 7 above. The emoluments of the five (2006: the remaining three) individuals were as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other benefits	**580**	475
Contributions to retirement benefits scheme	**92**	75
	672	550

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

During the two years ended 31 December 2007, no emoluments were paid to the five highest paid individuals as incentive payment for joining the Group or as compensation for loss of office.

9. FINANCE COSTS

	2007	2006
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**2,781**	4,178
Other borrowings	**–**	349
	2,781	4,527

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

10. TAXATION

	2007 RMB'000	2006 RMB'000
The tax charge comprises:		
PRC Enterprise Income Taxes ("EIT")	1,232	3,002

The Group is not subject to Hong Kong profits tax as the Group's income neither arises in, nor is derived from, Hong Kong.

The Company and certain of its subsidiaries were subject to EIT at rate of 15% (2006: 15%) as they were classified as Advanced and New Technology Enterprise. The remaining subsidiaries were taxed at the statutory rate of 33% (2006: 33%) of their respective assessable income for the year ended 31 December 2007.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limit to, the unification of the income tax rate for domestic invested and foreign invested enterprises at 25%. The preferential tax rate granted to the Group will continue after the New Corporate Income Tax Law.

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

	2007 RMB'000	2006 RMB'000
Loss before taxation	(12,755)	(22,087)
Tax at the domestic income tax rate of 15% (2006: 15%)	(1,913)	(3,313)
Tax effect of expenses not deductible and income not taxable for tax purpose	670	3,734
Tax effect of tax losses not recognised	2,901	1,940
Effect of difference tax rates of subsidiaries	238	641
Tax effect of utilization of tax losses previously not recognised	(664)	–
Tax charge for the year	1,232	3,002

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging/(crediting):

	2007 RMB'000	2006 RMB'000
Salaries and other benefits (included directors' and supervisors' emoluments)	**10,725**	7,760
Contributions to retirement benefits scheme	**3,594**	3,937
Total staff costs	**14,319**	11,697
Amortisation of intangible assets	**3,838**	5,118
Impairment loss on intangible assets	**337**	–
Loss on disposal of available-for-sale investments	**56**	–
Loss on disposal of subsidiaries *(note 29)*	**186**	–
Depreciation of property, plant and equipment	**3,390**	4,086
Impairment loss on property, plant and equipment	**583**	–
Impairment loss on loans and receivables	**9,195**	13,797
Write down of inventories (included in administrative expense)	**1,439**	–
Research and development costs	**8,860**	7,631
Operating lease expense for office premises	**1,318**	1,454
Cost of inventories recognised as an expense	**88,964**	122,070
Auditors' remuneration	**550**	572
Share of tax of associates (included in share of results of associates)	**116**	262
(Gain)/loss on disposal of property, plant and equipment	**(1,054)**	16
Bank interest income	**(436)**	(586)
Subsidy income *(note a)*	**(1,202)**	(2,719)
Subsidy on rental expenses *(note b)*	**–**	(3,600)
Discount on acquisitions of subsidiaries *(note 28)*	**–**	(672)
Gain on disposal of interests in associates	**(1,582)**	(2,196)

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 RMB3,600,000 in the year ended 31 December 2006 for rental expense of office premises granted by local government for high and new technology enterprises during the year. The amount was recognised as income upon receipt.

12. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006: nil).

13. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
Loss for the year attributable to equity holders of the Company (RMB'000)	(12,856)	(21,017)
Weighted average number of ordinary shares in issue (thousands)	339,577	339,577
Basic loss per share (RMB)	(0.038)	(0.062)

No diluted loss per share has been presented for the two years ended 31 December 2007 and 2006 as there were no diluting events existed during both years.

14. 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 2006	1,492	3,474	2,632	9,314	16,912
Additions	–	–	–	6,974	6,974
Acquired on acquisition of a subsidiary	–	232	382	2,195	2,809
Disposals	–	–	(58)	(63)	(121)
At 31 December 2006	1,492	3,706	2,956	18,420	26,574
Additions	–	115	–	3,233	3,348
Disposals	(1,492)	–	–	(225)	(1,717)
Disposals of subsidiaries	–	–	(320)	(3,749)	(4,069)
At 31 December 2007	**–**	**3,821**	**2,636**	**17,679**	**24,136**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2006	–	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
Provided for the year	60	331	297	2,702	3,390
Impairment loss recognised	–	–	–	583	583
Eliminated on disposals	(126)	–	–	(133)	(259)
Eliminated on disposal of subsidiaries	–	–	(226)	(2,911)	(3,137)
At 31 December 2007	**–**	**3,554**	**1,506**	**8,943**	**14,003**
CARRYING VALUES					
At 31 December 2007	**–**	**267**	**1,130**	**8,736**	**10,133**
At 31 December 2006	1,426	483	1,521	9,718	13,148

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

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

Depreciation is provided to write off the cost 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.

During the year, the directors conducted a review of the Group's office furniture, fixtures and other equipment and determined that a number of those assets were impaired, due to physical damage. Accordingly, impairment losses of approximately RMB583,000 have been recognised in respect of office furniture, fixtures and other equipment, which are used in the group telecommunications value-added services segment.

15. INTANGIBLE ASSETS

	Patents RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
COST				
At 1 January 2006	–	9,274	11,360	20,634
Additions	–	3,000	–	3,000
Acquired on acquisition of a subsidiary	–	5,116	–	5,116
At 31 December 2006	–	17,390	11,360	28,750
Additions	18	1,820	–	1,838
At 31 December 2007	**18**	**19,210**	**11,360**	**30,588**
AMORTISATION				
At 1 January 2006	–	8,816	5,680	14,496
Provided for the year	–	1,331	3,787	5,118
At 31 December 2006	–	10,147	9,467	19,614
Impairment loss recognised	–	337	–	337
Provided for the year	1	1,944	1,893	3,838
At 31 December 2007	**1**	**12,428**	**11,360**	**23,789**
CARRYING VALUES				
At 31 December 2007	**17**	**6,782**	**–**	**6,799**
At 31 December 2006	–	7,243	1,893	9,136

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

Three above intangible assets have finite useful lives. Such intangible assets are amortisated on straight-line basis over its estimated useful line as follows:

Patents	5 to 10 years
Computer software	3 to 10 years
Self-developed software	3 years

During the year, the directors conducted a review of the Group's intangible assets and impairment was made after valuation has been conducted by 浙江中誠健資產評估有限公司, a qualified valuer not connected with the Group, for the purpose of assessing the recoverable amounts. Accordingly, impairment loss of approximately RMB337,000 has been recognised.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

16. GOODWILL

	2007 RMB'000
At 1 January 2006	492
Arising on acquisition of subsidiaries *(Note 28)*	4,993
At 31 December 2006	5,485
Released upon disposal of subsidiaries *(Note 29)*	(2,001)
At 31 December 2007	3,484

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 2007, the management of the Group determined that there were no impairment of any of its CGUs containing goodwill.

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 16.06% to 20.06%. 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 7.49% to 11.7% and for the period beyond the fifth year using an annual growth rates ranging from 5.9% to 5.99%. 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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

17. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	2,500	5,350
Share of post-acquisition profits (losses) and reserves, net of dividends received	(279)	963
	2,221	6,313

As at 1 January 2006, there was approximately RMB2,498,000 goodwill included in the cost of interests in associates 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.

As at 31 December 2007, 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
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

On 28 August 2007 and 13 September 2007, the Group completed the disposal of its entire interests in 上海海港通信技術有限公司(上海海港) and 杭州天港信息技術有限公司(杭州天港) respectively. The net proceeds of the disposal amounted to approximate RMB6.5 million and RMB75,000 respectively and the Group's share of the interests in 上海海港 and 杭州天港 amounted to approximate RMB4,993,000 and zero as at disposal date, including the Group's share of results, net of tax, amounted to approximate RMB183,000 and loss of RMB40,000 for 上海海港 and 杭州天港 respectively.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

17. INTERESTS IN ASSOCIATES (Cont'd)

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

	2007 RMB'000	2006 RMB'000
Total assets	6,269	26,965
Total liabilities	(1,466)	(13,009)
Net assets	4,803	13,956
Group's share of net assets of associates	2,221	6,313
Revenue	12,271	26,674
Profit for the year	1,878	7,794
Group's share of results of associates for the year	901	1,783

18. INVENTORIES

	2007 RMB'000	2006 RMB'000
Computer software and hardware	505	2,180

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007	2006
	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.

The investment has been disposed of during the year ended 31 December 2007.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

20. TRADE RECEIVABLES

Trade receivables consisted of:

	2007 RMB'000	2006 RMB'000
Trade receivables	**48,184**	55,245
Less: Impairment losses	**(12,999)**	(11,193)
	35,185	44,052

There were no specific credit terms granted to the customers. Aging analysis of the trade receivables net of impairment losses as at 31 December 2007, based on invoice date is as follows:

	2007 RMB'000	2006 RMB'000
Less than one year	**34,086**	43,647
Over one year but less than two years	**1,099**	405
	35,185	44,052

The Group does not hold any collateral over these trade receivables balances. Based on past experience, management consider the unimpaired balances are fully recoverable as relevant customers have a good track record based on the Group's past experience and are of a good credit standing.

Movement in the impairment loss of trade receivables:

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**11,193**	8,791
Impairment loss recognised during the year	**1,913**	2,402
Eliminated on disposal of subsidiaries	**(107)**	–
Balance at the end of the year	**12,999**	11,193

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

21. PREPAYMENTS AND OTHER RECEIVABLES

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

	2007 RMB'000	2006 RMB'000
Prepayment to suppliers	11,314	8,721
Advance to employees	6,562	3,745
Other receivables	112,632	120,544
	130,508	133,010
Less Accumulated impairment	(26,041)	(18,759)
	104,467	114,251

Movement in the impairment loss of other receivables:

	2007 RMB'000	2006 RMB'000
Balance at beginning the year	18,759	7,364
Impairment loss recognised during the year	7,282	11,395
Balance at the end of the year	26,041	18,759

22. PLEDGED BANK DEPOSITS

	2007 RMB'000	2006 RMB'000
Pledged bank deposits	–	12,000

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

The deposits carried fixed interest rate of 1.80%. The pledged deposits had been released upon settlement of relevant bank borrowings.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

23. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade payables	2,300	3,598
Other payables and accruals	69,534	25,913
	71,834	29,511

Aging analysis of the trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Less than one year	1,847	2,941
Over one year but less than two years	154	657
Over two years but less than three years	299	–
	2,300	3,598

Included in other payables as at 31 December 2007 is an amount of approximately RMB6,279,000 received in August 2007 from a third party for the subscription of 16,969,170 domestic shares of the Company at an issue price of RMB0.37 per share. The application for subscription had been approved by the Board of Directors of the Company. According to the relevant rules and regulations in the PRC, the subscription of the Company's domestic shares needs to be approved by relevant government authority before the shares can be legally allotted to the subscriber. As at the balance sheet date and up to the date of approval of the consolidated financial statements, such approval from the government authority has not yet been granted.

24. SHORT-TERM BORROWINGS

	2007 RMB'000	2006 RMB'000
Unsecured bank loans repayable within one year	–	66,000
Secured bank loans repayable within one year	–	10,800
	–	76,800

All bank loans are denominated in RMB.

At 31 December 2006, the bank loans included approximately RMB76,800,000 fixed-rate borrowings which carried interest ranging from 5.0% to 6.4% per annum. All the bank loans were repaid during the year ended 31 December 2007.

	2007 RMB'000	2006 RMB'000
The bank loans were guaranteed by:		
Chen Ping *(Note a)*	–	25,000
Zheda Insigma Group Co. Ltd. (浙江浙大網新集團有限公司) *(Note b)*	–	41,000
	–	66,000

Notes:

(a) A director of the Company.

(b) Common controlled by a director of the Company; and a shareholder of substantial shareholder of the Company.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

25. PAID IN CAPITAL

	Number of shares		Amount	
	2007	2006	**2007**	2006
	'000	'000	**RMB'000**	RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.10 each	**227,452**	227,452	**22,745**	22,745
Overseas public shares ("H" shares) with par value of RMB0.10 each	**112,125**	112,125	**11,213**	11,213
	339,577	339,577	**33,958**	33,958

26. RESERVES

(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

During the year ended 31 December 2005, the Company Law in the PRC waived the requirement of appropriation to statutory public welfare reserve and balance of this reserve at 1 January 2006 was transferred to statutory surplus reserve.

27. UNPROVIDED DEFERRED TAX

The Group has unused tax losses amounted to RMB21,634,000 (2006: RMB11,739,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses as it is not probable that taxable profit will be available against which the tax losses can be utilised. The unrecognised tax losses will expire in four year's time.

28. ACQUISITION OF SUBSIDIARIES

The Group did not acquire any new subsidiary during the year ended 31 December 2007.

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 浙江天信科技發展有限公司 ("天信") and its subsidiaries whose principal activity is the provision of telecommunication related services.

On 11 December 2006, the Group acquired 85% of the paid-in capital of 浙江蘭創通信有限公司 ("蘭創") whose principal activity is the provision of telecommunication related services.

Details of the fair value of identifiable assets and liabilities acquired during the year ended 31 December 2006, purchase consideration, discount on acquisitions and goodwill are as follows:

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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

28. ACQUISITION OF SUBSIDIARIES (Cont'd)

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 ended 31 December 2006 between the date of acquisition and the balance sheet date.

賽爾網絡 contributed RMB4,602,000 to the Group's turnover and loss of RMB52,000 to the Group's loss for the year ended 31 December 2006 between the date of acquisition and the balance sheet date.

天信 and its subsidiaries contributed RMB7,278,000 to the Group's turnover and loss of RMB4,718,000 to the Group's loss for the year ended 31 December 2006 between the date of acquisition and the balance sheet date.

蘭創 did not contribute to the Group's turnover nor loss to the Group's loss for the year ended 31 December 2006 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 RMB168,868,000, and loss for the year would have been 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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

29. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2007, the Group disposed of the entire equity interests held in福州真易數碼科技有限公司 ("福州真易"), 黑龍江群思特, 廣州市蘭笛電子信息技術有限公司("廣州蘭笛"), 浙江蘭德新易信息技術有限公司("蘭德新易"), 合肥蘭德通靈科技有限公司("合肥通靈") and 賽爾網絡 respectively to independent third parties. The net assets of the six subsidiaries at the respectively dates of disposal were as follows:

	2007 Total RMB'000
Net assets disposed of	
Plant and equipment	932
Trade receivables	2,505
Contract work in progress	1,825
Inventories	79
Prepayments and other receivables	7,846
Bank balances and cash	1,214
Trade and other payables	(9,167)
Minority interests	(1,488)
	3,746
Release of goodwill	2,001
	5,747
Loss on disposal	(186)
Total consideration	5,561
Satisfied by:	
Cash	3,591
Other receivables	1,970
	5,561
Net cash inflow arising on disposal	
Cash consideration	3,591
Bank balances and cash disposed of	(1,214)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	2,377

During the year ended 31 December 2007, the disposed subsidiaries contributed to approximate RMB1,618,000 (2006: RMB733,000) to the Group's loss, contributed net operating cash flow RMB1,230,000 (2006: cash outflow of RMB761,200), received approximate to RMB41,000 (2006: cash outflow of RMB116,000) from investing activities and paid approximate of RMB3,083,000 (2006: RMB179,000) in respect of financing activities.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

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 interest with a related 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.

31. CONTINGENT LIABILITIES

Details of guarantee given by the Group as at the balance sheet date are set out in Note 33.

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.

Rental are fixed over the lease terms with no provision for contingent rent and terms of renewal.

The total future minimum lease payments are due as follows:

	2007	2006
	RMB'000	RMB'000
Not longer than one year	**1,110**	1,314

33. RELATED AND CONNECTED PARTY TRANSACTIONS

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

	2007	2006
	RMB'000	RMB'000
Income from provision of telecommunication related services to a related company *(Note)*	–	1,780
Guarantee given by Chen Ping in respect of a bank loan granted to the Group *(Note 24)*	–	25,000
Corporate guarantee given by Zheda Insigma Group Company Limited (浙江浙大網新集團有限公司) in respect of a bank loan granted to the Group *(Note 24)*	–	41,000

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

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

Note:

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

Balances with related parties

Amounts due from (to) related and connected parties included in other receivables (other payables) as detailed in notes 21 and 23 are set out below:

Name of related party	Relationship	2007 RMB'000	2006 RMB'000
Insigma Technology Co. Ltd.	A substantial shareholder of the Company	**(21,884)**	10,890
浙江大學快威科技集團有限公司	Controlled by a director of the Company	**10,720**	17,451
Zheda Insigma Group Co. Ltd. (浙江浙大網新集團有限公司)	Common controlled by a director of the Company; and a shareholder of substantial shareholder of the Company	**(9,460)**	(9,460)
上海艾孚生信息科技有限公司	Controlled by a director of the Company	**15,495**	7,044
杭州賽爾通信設備有限公司	Controlled by a director of the Company	**1,394**	–
Minority shareholders		**–**	286

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

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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

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

Compensation of key management personnel

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

	2007 RMB'000	2006 RMB'000
Short-term benefits	732	753
Post-employment benefits	92	75
	824	828

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

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 of 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 of 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. (浙江浙大網新集團有限公司)	Common controlled by a director of the Company; and a shareholder of substantial shareholder of the Company	Providing guarantee on the Company's banking facilities	100,000
Zhejiang University Innovation Tuling Information Technology Company Limited	Company controlled by director of the Company	The Company provided guarantee on banking facilities	50,000
Zheda Innovation Q wave Technology Co. Ltd.	Company controlled by directors of the Company	The Company provided guarantee on banking facilities	30,000

As at the balance sheet date, none (2006: RMB20,000,000) of the loan facilities guaranteed by the Company have been utilised.

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 RMB3,594,000 (2006: RMB3,937,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. GOVERNMENT GRANTS

Government grants of approximately RMB5,799,000 (2006: RMB3,252,000) 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.

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

36. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2007 are as follows:

Name	Place of incorporation/ operations	Paid up issued registered share capital	Proportion of ownership interest held by Company Directly	Proportion of ownership interest held by Company Indirectly	Principal activities
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 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
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

Notes to the Consolidated Financial Statements (Cont'd)

For the year ended 31 December 2007

36. SUBSIDIARIES (Cont'd)

Details of the Company's subsidiaries as at 31 December 2007 are as follows:

Name	Place of incorporation/ operations	Paid up issued registered share capital	Proportion of ownership interest held by Company Directly	Proportion of ownership interest held by Company Indirectly	Principal activities
浙江蘭創通信有限公司	PRC	RMB10,000,000	85%	–	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 ommenced 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 ommenced 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.

Financial Summary

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**131,442**	163,752	118,208	185,639	164,551
Cost of sales	**(88,964)**	(122,070)	(97,241)	(129,517)	(117,464)
Gross profit	**42,478**	41,682	20,967	56,122	47,087
Other operating income	**10,951**	12,783	11,156	1,714	5,257
Distribution and selling expenses	**(12,795)**	(12,533)	(11,493)	(10,067)	(12,290)
General and administrative expenses	**(51,509)**	(61,275)	(45,459)	(27,471)	(19,172)
Finance costs	**(2,781)**	(4,527)	(4,427)	(4,610)	(3,153)
Share of results of associates	**901**	1,783	1,968	(1,558)	(542)
(Loss) profit before taxation	**(12,755)**	(22,087)	(27,288)	14,130	7,187
Taxation	**(1,232)**	(3,002)	(400)	(3,609)	(785)
(Loss) profit for the year	**(13,987)**	(25,089)	(27,688)	10,521	16,402
Attributable to:					
– Equity holders of the Company	**(12,856)**	(21,017)	(28,348)	10,296	12,240
– Minority interests	**(1,131)**	(4,072)	660	225	4,162
	(13,987)	(25,089)	(27,688)	10,521	16,402
(Loss) earnings per share – Basic (RMB)	**(0.038)**	(0.062)	(0.083)	0.030	0.036

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**179,796**	239,084	274,915	297,310	261,690
Total liabilities	**(78,568)**	(123,131)	(142,178)	(138,013)	(112,338)
Minority interests	**(13,920)**	(15,789)	(11,556)	(9,768)	(6,723)
Shareholders' equity	**87,308**	100,164	121,181	149,529	142,629