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 2011

* for identification purpose only

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

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

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

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

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DIRECTORS

Executive directors

Mr. Chen Ping *(Chairman)*
Mr. Chao Hong Bo
Mr. Xia Zhen Hai
Mr. Jin Lian Fu
Mr. Xie Fei
Mr. Wang Linhua

Independent non-executive directors

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

SUPERVISORS

Supervisors

Mr. Xie Jian Ping
Mr. Wang Li Jun
Ms. Liu Chun Fang

Independent supervisors

Mr. Feng Pei Xian
Ms. Wang Xiao Li

AUTHORISED REPRESENTATIVE

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

4th Floor
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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

Room 1116-1119
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Wanchai
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, 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 2011 Annual Report of the Company and its subsidiaries (together the "Group").

FINANCIAL HIGHLIGHTS

I hereby announce that for the year ended 31 December 2011, the Group realized a turnover of approximately RMB62,918,000 with a net loss attributable to owners of the Company of approximately RMB3,582,000.

The Board does not recommend a payment for final dividends for the financial year ended 31 December 2011.

OPERATIONS REVIEW AND FUTURE PROSPECTS

In 2011, the Company continued its efforts to explore and develop telecommunication value-added business, and actively carried out business negotiations with local operators in different regions. To cope with the Group's refined classification and planning of various product offerings, the Company is continuously expanding its businesses including mobile assistant and SMS business card. At the same time, the Company is also aggressively planning to develop new business mode while seeking for new trends of mobile internet services. During the year, the Company also made comparably significant adjustments to its corporate structure and strengthened its corporate governance, with a view to exercise strict control over its costs and expenditures.

Finally, on behalf of the Board and the management, I would like to thank all our business partners, customers and shareholders for their valuable support.

Chen Ping
Chairman

30 March 2012
Hangzhou, the PRC

Management Discussion and Analysis

REVIEW OF OPERATIONS

1. Review of operating results for the year

For the year ended 31 December 2011, the consolidated turnover of the Group was approximately RMB62,918,000, representing a decrease of approximately RMB78,509,000, or approximately 55.51% as compared with that of 2010.

The net loss attributable to owners of the Company for the year ended 31 December 2011 was approximately RMB3,582,000, comparing to the net loss attributable to owners of the Company for the year ended 31 December 2010 of approximately RMB874,000.

During the year, the Company's business promotion continued to strengthen, however, business income has not been improved so much. The whole profitability of the Group's business is currently inadequate.

2. Product and business development

During the year, the Company continued to discuss new modes of cooperation with the operators, improve the applications and promotion of products, and adjust its own business development in response to the change in policies of the operators. The Company strived to introduce its existing 114 Bai Shi Tong Alliance business to major cities nationwide. Data of different types of alliance business operators was collected and consolidated for classification and analysis, in order to formulate the marketing strategies suitable for the business operators based on the business qualification for telecommunications operations owned by the Company with a view to bridge the sales channel between business operators and customers. In consideration of the latest development trend of mobile internet, the Company has made active response with the trial development of customer-end applications or embedded applications for terminal communication.

The Company has combined the special features of ECP software with industry applications through stepping up cooperation between the Company and Zhejiang Telecom. The Company has made good progress in the promotion of applications for the taxation and education sectors.

The Qishuitong Platform and the Jiaoyubao Platform developed by the Company have been launched and operated by operators and received favorable comments from the users. For internet applications, the Company has subsequently launched its 114 business information as well as industry & commerce information platforms with an aim to forge a business on-demand information platform.

Management Discussion and Analysis

3. Investment and cooperation

During the year, the Company maintained a satisfactory relationship with the major operators and technical institutions.

4. Employees information

As at 31 December 2011, the total number of employees of the Group was approximately 265 (2010: 250).

During the year, the staff costs of the Group amounted to approximately RMB15,018,000 (2010: RMB13,437,000).

The Group formulated its human resources management strategies under the guidance of the Group's development strategy, aiming at targets established under its long-term planning. As an important part of the Group's development strategy, the human resources management strategy played an important supporting and propelling role in realizing the overall development strategy of the Group. The Group builds its human resources management structure from an overall strategic perspective, having the incentive mechanism combined with other links of human resources management and promoting one another.

The Group opened up as many entrances as possible and established multiple recruitment channels to set up a talent-attracting mechanism. It also emphasized better use of human resources, and cultivating an agreeable mechanism for application and cultivation of talent.

The Group has set up an annual target salary system featuring performance assessment combined with remuneration management. The annual target salary is determined and paid out in accordance with the assessment results, whereby a comprehensive assessment is made on an employee after reasonable evaluation on his/her performance, capability and attitude. With these two things closely linked to each other, we have been able to effectively encourage our staff and guarantee the accomplishment of the Group's targets.

The Group attached great concern on the personal development of our staff and provided them with many types of training to improve themselves in terms of quality and skills. Through assessment on the responsibilities and capabilities of our staff, hiring professional consultancy companies to design staff training system, we tailored training courses for each individual, so as to make them better fit in their posts and help them grow in every aspect of their professional career. Only when the employees receive satisfactory improvement, can our Company have a bright future.

The Group currently has not issued any options nor does it have any bonus scheme.

Management Discussion and Analysis

REVIEW OF FINANCIAL POSITIONS

- The Group maintained creditable financial conditions. For the year ended 31 December 2011, the Group was mainly financed by proceeds generated from daily operations.

- As at 31 December 2011, the Group's cash and bank deposits balances amounted to approximately RMB25,005,000 (2010: RMB26,999,000).

- As at 31 December 2011, the Group had no short-term borrowings (2010: Nil).

- As at 31 December 2011, the Group had a total asset value of approximately RMB97,887,000 (2010: RMB114,484,000).

- As at 31 December 2011, the Group had current liabilities of approximately RMB17,624,000 (2010: RMB30,246,000).

- As at 31 December 2011, the Group had owner's equity of approximately RMB75,690,000 (2010: RMB79,272,000).

- As at 31 December 2011, the Group had non-controlling interests of approximately RMB4,573,000 (2010: RMB4,966,000).

- As at 31 December 2011, the Group had a gearing ratio (i.e. the ratio of liabilities to total assets) of approximately 18.00% (2010: 26.42%).

- As at 31 December 2011, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 19.85% (2010: 29.08%).

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

- As at 31 December 2011, the Group had no bank deposits pledged to secure the bills payable of the Group (2010: RMB2,200,000).

Management Discussion and Analysis

FUTURE PROSPECTS

1. Orders in hand/Status in sales contract

The existing business operations of the Group are conducted in smooth cooperation with various operators. All business contracts are valid and will be signed. At present, various businesses including SMS business card, 114 Bai Shi Tong and map business card are enjoying relatively stable income. Jiaoyubao and ECP industry applications are also becoming income sources of the Company.

For mobile internet application business, the customer-end software for communication terminals introduced by the Company has attracted more stable customer base, which will become important resources and channels for the next round of business expansion of the Company.

2. Prospects of new business and new products

In the past few years, we have been striving to launch a business transformation towards mobile internet application. To this end, the Company has recruited and increased effects in the cultivation of relevant talented personnel and established a professional team to develop technology. Besides, by leveraging on our own advantages derived from our cooperation with the operators over the years, we have been optimizing our products and business. While maintaining a stable income from our traditional value-added business, we have invested more resources, including capital, technology and personnel, to develop mobile internet products. We strongly believe that we will achieve breakthroughs in this area.

Directors, Supervisors and Senior Management

DIRECTORS

Executive directors

Mr. Chen Ping, aged 47, is the chairman and the chief executive officer 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. Jin Lian Fu, 66, vice president of the Company, 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 May 1997.

Mr. Xia Zhen Hai, aged 39, 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.

Mr. Chao Hong Bo, aged 48, 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 has been appointed as an executive Director with effect from 20 July 2007.

Directors, Supervisors and Senior Management

Mr. Xie Fei, aged 42, graduated from Zhejiang University of Finance & Economics with an associate degree in international accounting and a bachelor degree in accounting. He is a Certified Public Accountant and a Certified International Internal Auditor in the People's Republic of China. Mr. Xie served in the finance department of Zhejiang Machinery and Equipment Import and Export Co., Ltd. (浙江省機械設備進出口公司) between 1991 and 1999 and in the finance department of Hangzhou Alcatel Communication System Co., Ltd. (杭州阿爾卡特通訊系統有限公司) between 1999 and 2001. Since 2001, Mr. Xie has been serving at Insigma Technology Co. Ltd. (浙大網新科技股份有限公司), a substantial Shareholder and a company listed on the Shanghai Stock Exchange. Mr. Xie is currently the manager of audit department of Insigma Technology Co. Ltd. (浙大網新科技股份有限公司).

Mr. Wang Linhua, 37, is the Company's financial controller and vice president, is responsible for the whole spectrum of corporate finance. Mr. Wang graduated from the Xian University of Finance and Economics in Accounting, and is a graduate of master in professional accounting in Zhongnan University of Economics and Law, and he has many years of experience in corporate finance management. Mr. Wang joined the Company in January 2008.

Independent non-executive directors

Mr. Zhang De Xin, 81, 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, 72, 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, 41, 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

SUPERVISORS

Supervisors

Mr. Xie Jian Ping, aged 48, graduated from Shanghai College of Railway Public Security (上海鐵路公安專科學校) majoring in public order management. Between 1984 and 1998, he served as a public security officer in Hangzhou Public Security Bureau. In 1999. Mr. Xie joined the Company as an office manager. He was then promoted as the manager of the procurement department and is currently the manager of data communication product department of the Company.

Mr. Wang Li Jun, aged 38, graduated from Hangzhou Shipping Industrial College (杭州船舶工業學校) in 1991 majoring in computer science. Prior to joining the Group in June 2007, Mr. Wang served in a number of information technology and software companies and was responsible for corporate operations and technology development. In June 2007, Mr. Wang joined the Company as a product manager. He is currently the product director and assistant to general manager of 浙江蘭創通信有限公司, a 85% subsidiary of the Company. Save as disclosed herein, Mr. Wang has not previously held any position with the Company or any of its subsidiaries. He did not hold any directorships in any other listed public companies in the last three years.

Ms. Liu Chun Fang, aged 44, graduated from Central University of Finance and Economics (中央財經大學) in 1995 majoring in finance and accounting. Ms. Liu was an accountant in the Technology Service Company under the Administrative Bureau of Chinese Academy of Sciences. She is currently a deputy manager of the finance department of Guoheng Fashion Media Science Group Company Limited (國恆時尚傳媒科技集團股份有限公司), a Shareholder holding approximately 9.57% of the issued share capital of the Company as at the Latest Practicable Date. Save as disclosed herein, Ms. Liu has not previously held any position with the Company or any of its subsidiaries. She did not hold any directorships in any other listed public companies in the last three years.

Independent supervisors

Mr. Feng Pei Xian, 74, 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.

Ms. Wang Xiao Li, aged 43, graduated from Zhejiang Finance Institute in 1996 majoring in accounting. Ms. Wang obtained the certificate of intermediate accounting and has 14 years of experience in financial management. Ms. Wang is currently the head of finance in 浙江浩天信息科技有限公司. Save as disclosed herein, Ms. Wang has not previously held any position with the Company or any of its subsidiaries. Ms. Wang did not hold any directorships in any other listed public companies in the last three years.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Chen Ping, aged 47, is the chairman and the chief executive officer 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. Jin Lian Fu, 66, vice president of the Company, 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 May 1997.

Mr. Luo An, 48, vice president of the Company, is an engineer and the general manager of Hangzhou Huaguang Computer Engineering Co., Ltd., a subsidiary of the Company. Mr. Luo is a graduate of master in Software Computing and Theoretical Science of Zhejiang University. Mr. Luo had worked at managements positions in 浙江天昌集團高科技開發公司 and 湖州軍普電腦公司 respectively. Mr. Luo has over 10 years of management experience in the field of information technology. Mr. Luo joined the Company in September 2009.

Mr. Wang Linhua, 37, is the Company's executive director, financial controller and vice president, is responsible for the whole spectrum of corporate finance. Mr. Wang graduated from the Xian University of Finance and Economics in Accounting, and is a graduate of master in professional accounting in Zhongnan University of Economics and Law, and he has many years of experience in corporate finance management. Mr. Wang joined the Company in January 2008.

Mr. Wang Yong Gui, 37, is the secretary to the board of directors and vice president 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 corporate 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.

Directors, Supervisors and Senior Management

Mr. Gao Zhan, aged 41, is the vice president of the Company and general manager of 浙江蘭創通信有限公司. Mr. Gao graduated from the Department of Electronic Engineering of Hanzhou Institute of Electronic with a bachelor's degree in radio technology. Mr. Gao has been in the areas of data service and telecommunication value-added service for many years and has extensive experiences in planning, operation, management and market operation of broadband data service and value-added business. Mr. Gao joined the Company in April 2005.

Ms. Chan Ching Yi, aged 37, is the qualified accountant and company secretary of the Company. She is a member of the HKICPA and a fellow of the Association of Chartered Certified Accountants. Ms. Chan holds a bachelor's degree in accountancy and has accumulated more than 14 years of financial and auditing experience. She is currently the company secretary of Kingdom Holdings Limited (stock code: 528) and Shifang Holding Limited (stock code: 1831), both companies listed on the Main Board of the Stock Exchange.

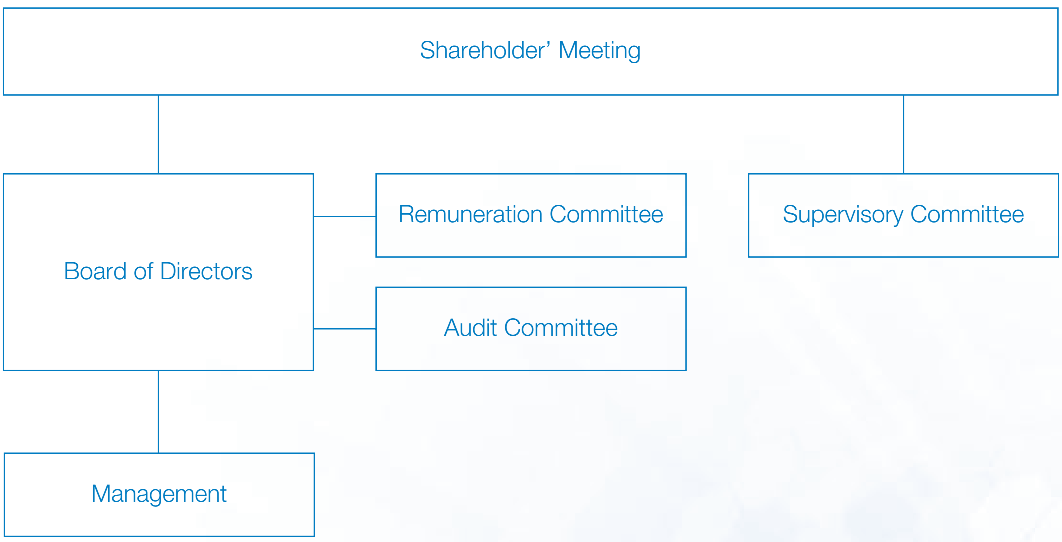
Corporate Governance Report

During the report year, the Company pursues the company mission of honesty and diligence so as to ensure that the Company can develop stable. The Company is devoted to advance the Company's operation more in both transparent and systematic ways, and establishes a proper system of corporate governance which is in compliance with PRC Company Laws and the Rules Governing the Listing of Securities on 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 year, the Company ensures to keep conducts pursuant to the Code and put the principles on daily management system into application. The Company also amended and supplemented the Rules and 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

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

Code			**Status of Company's Corporate Governance**
A.	**Director**		
	A.1	Board of directors	The Company's Board assumes responsibility for leadership and control the Company.
		A.1.1	During report period, five 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)*	5/5
Dong Danqing (resigned on 11 November 2011)	4/5
Chao Hong Bo	3/5
Geng Hui (resigned on 11 November 2011)	3/5
Xia Zhen Hai	3/5
Jin Lian Fu	5/5
Mr. Xie Fei (appointed on 11 November 2011)	1/5
Wang Linhua (appointed on 11 November 2011)	1/5
Independent non-executive director	
Zhang De Xin	5/5
Cai Xiao Fu	5/5
Gu Yu Lin	4/5

A.1.2	The Company sets up the office of Board secretary, which is responsible for preparing the matters of Board of directors. So the proposed agenda of Board meetings will solicit and collect director's opinion in advance. This guarantees all directors have an opportunity to put forward any topic.
A.1.3	The Company observes requirement of the Code, gives 14 days notice of periodic Board meeting, the time of meeting, the place, topic are sent to every director, through fax and post and the director signs for the receipt.

Corporate Governance Report

	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 raised 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 the same person. It guarantees the rights and accountability is in balance.
	A.2.1	The office of the Chairman is served by Mr. Chen Ping, whereas the office of the Chief Executive Officer is also served by him. The Company has a discrepancy with the provision of the Code. Nevertheless, the scope of official duty of the two positions are segregated properly in accordance with the Articles of Association and the management system of the Company, ensuring the balance of power and authorization.
	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

	A.2.4 to A.2.6	The Chairman appoints the secretary of Board 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 directors constitute 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 three independent non-executive directors of the Company, being 1/3 of the Board.
A.4	Appointments, re-election and removal	Appointment, re-election of directors need to be approved by shareholders' meetings. The term of each director is three years, and can be re-elected in succession. According to the stipulations of Articles of Association, the Company cannot terminate the office of a director without course. The resignation and termination of a director should need reasonable 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

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 inquiries, 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

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 and Mr. Gu Yu Lin, who are independent non-executive directors.
	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

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 Announcements issued by the Company were approved by directors.

C.2 Internal controls

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

C.2.2 The Board's annual review for the year ended 31 December 2011 as mentioned in C.2.1 above has satisfactorily covered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget.

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.

Corporate Governance Report

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.

C.3.5 In the year, 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.

Corporate Governance Report

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.

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 draft resolution is announced by the Chairman finally.

DIRECTOR'S TRANSACTION IN SECURITIES

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

BOARD OF DIRECTORS

The current Board was appointed in the Extraordinary General Meeting held on 21 September 2010. Nine directors were appointed and entered into a three year service agreement with the Company with the provision of re-election for appointment.

On 11 November 2011, Ms. Dong Danqing and Ms Geng Hui resigned as executive director. The Board appointed Mr. Mr.Xie Fei and Mr. Wang Linhua as executive director with effect from 11 November 2011.

Corporate Governance Report

The current members of the Board include:

Executive directors	**Independent non-executive directors**
Mr. Chen Ping *(Chairman)*	Mr. Zhang De Xin
Mr. Chao Hong Bo	Mr. Cai Xiao Fu
Mr. Xia Zhen Hai	Mr. Gu Yu Lin
Mr. Jin Lian Fu	
Mr. Xie Fei	
Mr. Wang Linhua	

Pursuant to Rule 5.09 of the GEM Listing Rules, during the year, each of the existing three independent non-executive directors, being Mr. Zhang De Xin, Mr. Cai Xiao Fu and Mr. Gu Yu Lin, had provided a confirmation of their independence to the Company confirming that there were no circumstances which might affect their qualification to service as the Company's independent non-executive directors. The Company considers that its three independent non-executive directors are independent.

For the year 2011, 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)*	112	–
Dong Danqing (resigned on 11 November 2011)	10	–
Chao Hong Bo	21	–
Geng Hui (resigned on 11 November 2011)	10	–
Xia Zhen Hai	21	–
Jin Lian Fu	148	–
Mr. Xie Fei (appointed on 21 November 2011)	5	–
Mr. Wang Linhua (appointed on 21 November 2011)	5	–
Zhang De Xin	–	21
Cai Xiao Fu	–	21
Gu Yu Lin	–	21

Corporate Governance Report

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 possesses 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 four meetings and reviewed the final results for the year 2010 and the first three quarterly results for the year 2011. The audit committee also discussed and communicated with the auditors in relation to the financial positions and internal audit of the Company.

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

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

An audit committee meeting is held on 30 March 2012 to consider and discuss the results, financial conditions, principal accounting and internal audit affairs for the year ended 31 December 2011. 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 (Chairman), Mr. Cai Xiao Fu and Mr. Chen Ping (appointed on 30 March 2012), who are independent non-executive directors. 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.

Corporate Governance Report

NOMINATION COMMITTEE

The Company has set up a nomination committee on 30 March 2012, comprising Mr. Zhang De Xin, (Chairman) Mr. Gu Yu Lin and Mr. Chen Ping with written terms of reference.

AUDITORS' REMUNERATION

During the year, the Group incurred approximately RMB510,000 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

30 March 2012
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 2011.

PRINCIPAL ACTIVITIES

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 businesses of the Company's subsidiaries are set out in note 33 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 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2011 and its state of affairs as at that date are set out in the consolidated financial statements on pages 37 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 2011, the Group did not have profit available for distribution to owners of the Company (2010: Nil).

PLANT AND EQUIPMENT

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

Report of the Directors

BORROWINGS AND INTERESTS CAPITALISATION

The Group did not neither have bank loans nor capitalized 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 39 of the annual report.

RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note 31 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 32% of the Group's turnover and the largest customer of the Group accounted for approximately 14% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 76% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 49% 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 2011.

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2011 and the Group's assets and liabilities as at 31 December 2007, 2008, 2009, 2010 and 2011 is set out on page 94 of the annual report.

Report of the Directors

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)*
Ms. Dong Danqing (resigned on 11 November 2011)
Mr. Chao Hong Bo
Ms. Geng Hui (resigned on 11 November 2011)
Mr. Xia Zhen Hai
Mr. Jin Lian Fu
Mr. Xie Fei (appointed on 11 November 2011)
Mr. Wang Linhua (appointed on 11 November 2011)

Independent non-executive directors

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

Supervisors

Mr. Xie Jian Ping
Mr. Wang Li Jun
Ms. Liu Chun Fang

Independent supervisors

Mr. Feng Pei Xian
Ms. Wang Xiao Li

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

An Extraordinary General Meeting was held on 21 September 2010 for re-elections and appointment of directors and supervisors. Nine directors and five supervisors were appointed. Each appointed director and supervisor has entered into a three year service agreement with the Company, Ms. Dong Danqing and Ms. Gong Hui resigned as an executive director on 11 November 2011 and Mr. Wang Linhua and Mr. Xie Fei were appointed as an executive director on 11 November 2011.

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.

Report of the Directors

Saved as disclosed above, none of the directors or 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 9 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 8 and 9 to the consolidated financial statements respectively.

DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2011, 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 & Chief Executive Officer				
Chen Ping	Personal	Beneficial owner	36,392,320	10.21%
Director				
Jin Lian Fu	Personal	Beneficial owner	3,411,790	0.96%

Report of the Directors

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 2011, none of the directors, supervisors or chief executives was granted options to subscribe for shares of the Company. As at 31 December 2011, 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 DISCLOSEABLE 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 2011, 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

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	22.94%
Shanghai Longtail Investment Management Co., Ltd.	Beneficial owner	34,117,808 Domestic Shares	9.57%
Guoheng Fashion Media Technology Group Co. Ltd	Beneficial owner	34,117,800 Domestic Shares	9.57%
Fong For	Beneficial owner	21,735,000 H Shares	6.10%
Wu Zhong Hao	Beneficial owner	16,490,280 Domestic Shares	4.63%
Liu Qiao Ping	Beneficial owner	10,235,340 Domestic Shares	2.87%
Shi Chun Hua	Beneficial owner	7,235,812 Domestic Shares	2.03%

RELATED AND CONNECTED PARTY TRANSACTIONS

Except otherwise disclosed in note 30 to the consolidated financial statements, the Group had no transactions which need to be disclosed as connected transaction in accordance with the requirements of the GEM Listing Rules.

Report of the Directors

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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 2011.

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 2011 and the annual report of the Group for the year 2010. The audit committee also reviewed the annual report of the Group for the year 2011.

AUDITORS

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

On behalf of the Board
Chen Ping
Chairman

30 March 2012
Hangzhou, the PRC

Report of the Supervisory Committee

The Supervisor Committee is pleased to present the annual report for the year of 2011.

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
Mr. Xie Jian Ping
Chairman of the Supervisory Committee

30 March 2012
Hangzhou, the PRC

Independent Auditor's Report

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS 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)

We have audited the consolidated financial statements of Zheda Lande Scitech Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on page 37 to 93, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITY (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 of the consolidated financial statements that give a true and fair view 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 the directors, 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 state of affairs of the Group as at 31 December 2011 and of the Group's loss and 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
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
30 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	7	**62,918**	141,427
Cost of sales		**(39,767)**	(111,499)
Gross profit		**23,151**	29,928
Other operating income		**7,638**	17,215
Distribution and selling expenses		**(7,244)**	(6,139)
General and administrative expenses		**(27,919)**	(42,368)
Share of result of an associate	17	**426**	492
Loss before tax		**(3,948)**	(872)
Income tax	10	**(27)**	(232)
Loss for the year and total comprehensive expense for the year	11	**(3,975)**	(1,104)
Loss for the year and total comprehensive expense attributable to:			
Owners of the Company		**(3,582)**	(874)
Non-controlling interests		**(393)**	(230)
		(3,975)	(1,104)
Loss per share		**RMB**	RMB
Basic and diluted	13	**1.00 cents**	0.25 cents

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Plant and equipment	14	**5,284**	5,001
Intangible assets	15	**88**	2,188
Goodwill	16	**956**	956
Interest in an associate	17	**2,767**	2,341
		9,095	10,486
Current assets			
Inventories	18	**757**	3,790
Amounts due from customers for contract work	19	**–**	50
Trade receivables	20	**7,792**	14,736
Prepayments and other receivables	21	**54,924**	55,909
Amount due from an associate	22	**314**	314
Pledged bank deposits	23	**–**	2,200
Bank balances and cash	23	**25,005**	26,999
		88,792	103,998
Current liabilities			
Trade and other payables	24	**15,762**	24,661
Receipt in advance from customers		**131**	3,821
Income tax payables		**1,731**	1,764
		17,624	30,246
Net current assets		**71,168**	73,752
NET ASSETS		**80,263**	84,238
Capital and reserves			
Paid-in capital	25	**35,655**	35,655
Reserves	26	**40,035**	43,617
Equity attributable to owners of the Company		**75,690**	79,272
Non-controlling interests		**4,573**	4,966
TOTAL EQUITY		**80,263**	84,238

The consolidated financial statements on pages 37 to 93 were approved and authorised for issue by the Board of Directors on 30 March 2012 and are signed on its behalf by:

Chen Ping	**Xia Zhen Hai**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company						
	Paid-in capital	**Share premium**	**Statutory surplus reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	35,655	76,570	10,567	(42,646)	80,146	5,823	85,969
Total comprehensive expense for the year	–	–	–	(874)	(874)	(230)	(1,104)
Disposal of a subsidiary *(note 28)*	–	–	–	–	–	(627)	(627)
At 31 December 2010	35,655	76,570	10,567	(43,520)	79,272	4,966	84,238
Total comprehensive expense for the year	–	–	–	(3,582)	(3,582)	(393)	(3,975)
At 31 December 2011	**35,655**	**76,570**	**10,567**	**(47,102)**	**75,690**	**4,573**	**80,263**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	(3,948)	(872)
Adjustments for:		
Amortisation of intangible assets	300	299
Write back of impairment loss on trade receivables	(15)	(4,552)
Write back of impairment loss on other receivables	(6,677)	(10,765)
Depreciation of plant and equipment	1,406	1,548
Impairment loss on intangible assets	1,800	–
Gain on disposal of a subsidiary	–	(34)
Impairment losses on trade receivables	1,209	–
Impairment losses on other receivables	–	16,237
Interest income	(292)	(134)
Loss on disposal of plant and equipment	1	45
Share of result of an associate	(426)	(492)
Operating cash flows before movements in working capital	(6,642)	1,280
Decrease (increase) in inventories	3,033	(2,762)
Decrease in amounts due from customers for contract work	50	150
Decrease in trade receivables	5,750	7,717
Decrease (increase) in prepayments and other receivables	7,296	(16,831)
Decrease in amount due from an associate	–	279
(Decrease) increase in trade and other payables	(7,598)	4,696
(Decrease) increase in receipt in advance from customers	(3,690)	3,691
Increase in amounts due to customers for contract work	–	(617)
Cash used in operations	(1,801)	(2,397)
PRC income tax paid	(60)	(396)
NET CASH USED IN OPERATING ACTIVITIES	(1,861)	(2,793)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Net cash outflow from disposal of a subsidiary	28	–	(51)
Repayment from related parties (included in other receivables)		366	7,730
Interest received		292	134
Decrease (increase) in pledged bank deposits		2,200	(2,200)
Purchase of plant and equipment		(1,690)	(1,090)
NET CASH FROM INVESTING ACTIVITIES		1,168	4,523
FINANCING ACTIVITIES			
Repayment to related parties (included in other payables)		(1,301)	(640)
NET CASH USED IN FINANCING ACTIVITIES		(1,301)	(640)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,994)	1,090
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		26,999	25,909
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		25,005	26,999

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

Zheda Lande Scitech Limited (the "Company") was established 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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

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 33.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

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

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for the amendments to IFRS 3 (as revised in 2008), IFRS 7, IAS 1 and IAS 28
International Accounting Standards ("IAS") 24 (As revised in 2009)	Related Party Disclosures
IAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The directors of the Company anticipate that the application of the above new and revised IFRSs has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
	First-time Adoption of International Financial Reporting Standards – Government Loans[2]
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangement[2]
IFRS 12	Disclosures of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (As revised in 2011)	Employee Benefits[2]
IAS 27 (As revised in 2011)	Separate Financial Statements[2]
IAS 28 (As revised in 2011)	Investments in Associate and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to IFRS 7 will affect the group's disclosure regarding transfers of financial assets in the future.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Key requirements of IFRS 9 are described as follows:

– IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015 and that the application of the new standard will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these fives standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investees, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the invests to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Cont'd)

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of IFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in IFRS 10). However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 statement of comprehensive income 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted (please describe how the adjustment to non-controlling interests is determined) and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combination (Cont'd)

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- 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 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first 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. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that 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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share 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.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

(i) Income from provision of telecommunication solutions

Income from provision of telecommunication solutions is recognised by reference to the stage of completion of the contract. The stage of completion is determined by making reference to testing criteria as certified by the customers.

(ii) Income from trading of hardware and computer software

Revenue is recognised when the goods are delivered and the title have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(iii) 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 collectability is probable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

(iv) Interest income

Interest income from a financial asset is recognised when it is probably that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Intangible assets

Intangible assets acquired separately

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

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

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 activities (or from the development phase of an internal project) is recognised if, and only if, all of the followings 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;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Research and development expenditure (Cont'd)

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Subsequent to initial recognition, internally-generated intangible assets is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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 end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Construction contracts (Cont'd)

Where contract costs incurred to date plus recognised profits less recognised 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 statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is calculated using first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

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 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, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 financial assets have been affected.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are in addition 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 in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Effective interest method

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, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition (Cont'd)

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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.

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Retirement benefit costs

Payment to PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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.

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

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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. 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 end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered 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. When 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.

In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 (or a cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affect both current and future periods.

The followings are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year.

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. Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is approximately RMB956,000 (2010: RMB956,000). Details of the recoverable amount calculation are disclosed in note 16 and no impairment loss had been provided for the year ended 31 December 2011 (2010: Nil).

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amounts of trade receivables and other receivables are approximately RMB7,792,000 (net of impairment loss of approximately RMB6,011,000) and RMB50,190,000 (net of impairment loss of approximately RMB20,123,000), respectively (2010: the carrying amounts of trade receivables and other receivables are approximately RMB14,736,000 (net of impairment loss of approximately RMB4,817,000) and RMB45,354,000 (net of impairment loss of approximately RMB26,800,000), respectively).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets have 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, impairment loss of RMB1,800,000 had been provided for the year ended 31 December 2011 (2010: Nil). As at 31 December 2011, the carrying amount of intangible assets is approximately RMB88,000 (2010: RMB2,188,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising paid in capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a. Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**84,746**	92,114
Financial liabilities		
At amortised cost	**15,762**	24,661

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from an associate, bank balances and cash and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group reviews the recoverable amount of each individual trade debt at the end of each reporting period 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 location is mainly in the PRC, which accounted for 100% of trade and other receivables as at 31 December 2011 and 2010. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

b. Financial risk management objectives and policies (Cont'd)

(ii) 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 directors of the Group.

(iii) 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 which are all short-term in nature. There were no interest-bearing financial liabilities as at 31 December 2011 and 2010. The management monitors the movement in market interest rates and reviews such impact on the Group 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, no sensitivity analysis has been prepared.

(iv) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The directors of the Company 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 Group's contractual maturity for all its financial liabilities are based on the agreed repayment terms and the undiscounted cash flows of financial liabilities based on the earliest date or while the Group can be required to pay. They are all within one year or on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

c. Fair values of financial assets and financial liabilities

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

7. TURNOVER AND SEGMENT INFORMATION

Turnover comprises income from provision of telecommunication solutions, trading of hardware and computer software and provision of telecommunication value-added services, net of business tax and discounts during the year.

The Group's operating segments, based on information reported to the chief operating decision maker, being the executive directors of the Company, for the purpose of resource allocation and performance assessment are as follows:

1. Provision of telecommunication solutions

2. Trading of hardware and computer software

3. Provision of telecommunication value-added services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION (Cont'd)

The following is analysis of the Group's revenue and results by reportable segment.

(a) Segment revenues and results

For the year ended 31 December

	Provision of telecommunication solutions		Trading of hardware and computer software		Provision of telecommunication value-added services		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment turnover	**-**	428	**39,453**	110,526	**23,465**	30,473	**62,918**	141,427
Segment results	**-**	(2)	**(5,810)**	(287)	**3,972**	6,400	**(1,838)**	6,111
Unallocated revenue							**8,049**	13,155
Unallocated expenses							**(10,159)**	(20,138)
Loss before taxation							**(3,948)**	(872)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment profit/loss represent the profit earned by/loss from each segment without allocation of central administration costs, write back of/impairment loss on other receivables, directors' salaries, bank interest income, share of result of an associate, government grants and gain on disposal of a subsidiary. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION (Cont'd)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Provision of telecommunication solutions		Trading of hardware and computer software		Provision of telecommunication value-added services		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
As at 31 December								
Segment assets	**–**	65	**13,994**	27,480	**9,243**	8,041	**23,237**	35,586
Unallocated assets							**74,650**	78,898
Total assets							**97,887**	114,484
Segment liabilities	**–**	11	**10,095**	12,310	**1,740**	4,020	**11,835**	16,341
Unallocated liabilities							**5,789**	13,905
Total liabilities							**17,624**	30,246

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than pledged bank deposits, bank balances and cash, interest in an associate, amount due from an associate, balances with related parties and other receivables which are unable to allocate into reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than current tax liabilities and balances with related parties. Liabilities for which reportable segments are jointly liable are allocated on the basis of the revenues earned by individual reportable segments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION (Cont'd)

(c) Other segment information:

For the year ended 31 December

	Provision of telecommunication solutions		Trading of hardware and computer software		Provision of telecommunication value-added services		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Amounts included in the measure of segment profit or loss or segment assets:								
Addition to non-current assets	**–**	5	**739**	697	**951**	388	**1,690**	1,090
Depreciation and amortisation	**–**	6	**813**	921	**844**	870	**1,657**	1,797
Write back of impairment loss on trade receivables	**–**	(4,552)	**(15)**	–	**–**	–	**(15)**	(4,552)
Impairment loss on trade receivables	**–**	–	**1,009**	–	**200**	–	**1,209**	–
Impairment loss on intangible assets	**–**	–	**1,800**	–	**–**	–	**1,800**	–
Loss on disposal of plant and equipment	**–**	1	**1**	43	**–**	1	**1**	45
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:								
Amortisation	**49**	50	**–**	–	**–**	–	**49**	50
Interest in an associates	**2,767**	2,341	**–**	–	**–**	–	**2,767**	2,341
Interest income	**–**	–	**(49)**	(30)	**(243)**	(104)	**(292)**	(134)
Taxation	**–**	2	**(6)**	186	**33**	44	**27**	232
Impairment losses on other receivables	**–**	16,237	**–**	–	**–**	–	**–**	16,237
Share of result of an associate	**426**	492	**–**	–	**–**	–	**426**	492
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	(34)	**–**	(34)
Write back of impairment loss on other receivables	**–**	–	**(5,669)**	(10,765)	**(1,008)**	–	**(6,677)**	(10,765)

Non-current assets excluded goodwill and interest in an associate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION (Cont'd)

(d) Geographical information

Both revenue and non-current assets of the Group's operating segment are derived from or located in the PRC. Accordingly, no geographical information is presented.

(e) Information about major customer

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011 **RMB'000**	2010 RMB'000
Customer A	**N/A***	19,125
Customer B	**8,951**	N/A*

**Note:* The corresponding revenue did not contribute over 10% of the total sales of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The details of emoluments of each of eleven (2010: ten) directors and five (2010: nine) supervisors for the years ended 31 December 2011 and 2010 are set out below:

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:				
Mr. Jin Lian Fu	–	148	–	148
Mr. Chen Ping	–	112	–	112
Mr. Chao Hong Bo	–	21	–	21
Mr. Xia Zhen Hai	–	21	–	21
Ms. Geng Hui *(Note 1)*	–	10	–	10
Ms. Dong Danqing *(Note 1)*	–	10	–	10
Mr. Wang Linhua *(Note 2)*	–	5	–	5
Mr. Xie Fei *(Note 2)*	–	5	–	5
Independent non-executive directors:				
Mr. Cai Xiao Fu	21	–	–	21
Mr. Zhang De Xin	21	–	–	21
Mr. Gu Yu Lin	21	–	–	21
Supervisors				
Mr. Xie Jian Ping	–	3	–	3
Mr. Wang Li Jun	–	3	–	3
Mr. Liu Chun Fang	–	3	–	3
Ms. Wang Xiao Li	–	3	–	3
Mr. Feng Pei Xian	–	3	–	3
Total	63	347	–	410

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

For the year ended 31 December 2010

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:				
Mr. Chen Ping	–	99	–	99
Mr. Chao Hong Bo	–	22	–	22
Ms. Geng Hui	–	22	–	22
Mr. Xia Zhen Hai	–	22	–	22
Ms. Dong Danqing	–	22	–	22
Mr. Jin Lian Fu *(Note 4)*	–	126	–	126
Mr. Hu Yang Jun *(Note 5)*	–	22	–	22
Independent non-executive directors:				
Mr. Cai Xiao Fu	22	–	–	22
Mr. Zhang De Xin	22	–	–	22
Mr. Gu Yu Lin	22	–	–	22
Supervisors				
Mr. Feng Pei Xian	–	3	–	3
Mr. Huo Zhong Hui *(Note 3)*	–	3	–	3
Mr. Wang Hui *(Note 3)*	–	3	–	3
Ms. Xue Yun *(Note 3)*	–	3	–	3
Mr. Zheng Bing *(Note 3)*	–	3	–	3
Mr. Xie Jian Ping *(Note 4)*	–	3	–	3
Mr. Wang Xiao Li Jun *(Note 4)*	–	3	–	3
Mr. Liu Chun Fang *(Note 4)*	–	3	–	3
Ms. Wang Xiao Li *(Note 4)*	–	3	–	3
Total	66	362	–	428

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

None of the directors or supervisors waived or agreed to waive any emoluments paid by the Group for the two years ended 31 December 2011.

Note 1: Resigned on 11 November 2011
Note 2: Appointed on 11 November 2011
Note 3: Resigned on 21 September 2010
Note 4: Appointed on 21 September 2010
Note 5: Resigned on 14 May 2010

No emoluments were paid or payable to any directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2011.

9. EMPLOYEES' EMOLUMENTS

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

During the year, the five highest paid individuals include two directors (2010: two) of the Company, whose emoluments have been included in Note 8 above. The emoluments of the remaining three (2010: three) individuals were as follows:

	2011	2010
	RMB'000	RMB'000
Salaries and other benefits	**734**	466
Contributions to retirement benefits scheme	**32**	32
	766	498

The emoluments of each of these individuals for both years were less than HK$1,000,000 or equivalent to approximately RMB811,000 (2010: RMB860,000).

No emoluments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. INCOME TAX

	2011 RMB'000	2010 RMB'000
The tax charge comprises:		
PRC Enterprise Income Tax ("EIT")		
– current year	**208**	529
– overprovision in prior years	**(181)**	(297)
	27	232

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises is 25% for the two years ended 31 December 2011.

The Company and certain of its subsidiaries were subject to EIT at a rate of 15% (2010: 15%) as they were classified as Advanced and New Technology Enterprise.

No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not has any assessable profits subject to Hong Kong Profits Tax during the two years ended 31 December 2011.

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

	2011 RMB'000	2010 RMB'000
Loss before taxation	**(3,948)**	(872)
Tax at the domestic income tax rate of 15% (2010: 15%)	**(592)**	(131)
Tax effect of share of results of associates	**(64)**	(74)
Tax effect of expenses not deductible for tax purpose	**957**	2,753
Tax effect of income not taxable for tax purpose	**(1,673)**	(2,332)
Tax effect of tax losses not recognised	**2,197**	578
Effect of difference tax rates of subsidiaries	**(617)**	(265)
Overprovision in prior years	**(181)**	(297)
Tax charge for the year	**27**	232

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. LOSS FOR THE YEAR

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

	2011 RMB'000	2010 RMB'000
Salaries and other benefits (including directors' and supervisors' emoluments)	**13,524**	12,028
Contributions to retirement benefits scheme	**1,494**	1,409
Total staff costs	**15,018**	13,437
Amortisation of intangible assets	**300**	299
Auditors' remuneration	**510**	581
Depreciation of plant and equipment	**1,406**	1,548
Impairment loss on trade and other receivables	**1,209**	16,237
Impairment loss on intangible assets	**1,800**	–
Loss on disposal of plant and equipment	**1**	45
Operating lease rental for office premises	**2,262**	2,261
Research and development costs recognised as expenses	**1,823**	7,150
Bank interest income	**(292)**	(134)
Government grants *(Note 1)*	**(654)**	(1,472)
Write back of impairment loss on trade and other receivables (included in other operation income)	**(6,692)**	(15,317)
Gain on disposal of a subsidiary	**–**	(34)
Cost of inventories recognised as an expense	**37,526**	103,903

Note:

1. Government grants represented the amount received in the current year towards certain research and development activities. There are no unfulfilled conditions or contingencies relating to those grants.

12. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

13. LOSS PER SHARE

The calculations of the basic loss per share are based on loss for the year attributable to owners of the Company of approximately RMB3,582,000 (2010: RMB874,000) and on the weighted average number of 356,546,000 (2010: 356,546,000) shares in issue during the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. LOSS PER SHARE (Cont'd)

Diluted loss per share was the same as basic loss per share for the two years ended 31 December 2011 as there were no diluting events existed during both years.

14. PLANT AND EQUIPMENT

	Leasehold improvements	Motor vehicles	Office furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2010	3,734	1,830	11,900	17,464
Additions	64	–	1,026	1,090
Disposals	–	–	(1,509)	(1,509)
Disposals of a subsidiary *(note 28)*	–	–	(949)	(949)
At 31 December 2010	3,798	1,830	10,468	16,096
Additions	–	521	1,169	1,690
Disposals	–	–	(32)	(32)
At 31 December 2011	**3,798**	**2,351**	**11,605**	**17,754**
ACCUMULATED DEPRECIATION				
At 1 January 2010	3,237	630	8,028	11,895
Provided for the year	98	232	1,218	1,548
Eliminated on disposals	–	–	(1,464)	(1,464)
Eliminated on disposal of a subsidiary *(note 28)*	–	–	(884)	(884)
At 31 December 2010	3,335	862	6,898	11,095
Provided for the year	149	250	1,007	1,406
Eliminated on disposals	–	–	(31)	(31)
At 31 December 2011	**3,484**	**1,112**	**7,874**	**12,470**
CARRYING VALUES				
At 31 December 2011	**314**	**1,239**	**3,731**	**5,284**
At 31 December 2010	463	968	3,570	5,001

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. PLANT AND EQUIPMENT (Cont'd)

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

Leasehold improvements	3-6 years
Motor vehicles	5 years
Office furniture, fixtures and other equipment	5 years

15. INTANGIBLE ASSETS

	Patents	Computer software	Self-developed software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2010, 31 December 2010 and 31 December 2011	250	11,774	11,360	23,384
AMORTISATION AND IMPAIRMENT				
At 1 January 2010	63	9,474	11,360	20,897
Provided for the year	50	249	–	299
At 31 December 2010	113	9,723	11,360	21,196
Provided for the year	49	251	–	300
Impairment loss	–	1,800	–	1,800
At 31 December 2011	**162**	**11,774**	**11,360**	**23,296**
CARRYING VALUES				
At 31 December 2011	**88**	**–**	**–**	**88**
At 31 December 2010	137	2,051	–	2,188

The above intangible assets have finite useful lives. Such intangible assets are amortised on straight-line basis over their estimated useful lives as follows:

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

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For the year ended 31 December 2011

15. INTANGIBLE ASSETS (Cont'd)

During the year ended 31 December 2011, the directors of the Company conducted a review on the computer software and determined the computer software were impaired, due to termination of the project. Accordingly, impairment loss of RMB1,800,000 have been recognised in the profit or loss for the year.

During the year ended 31 December 2010, the directors of the Company conducted a review on the computer software with reference to the recoverable amount. The recoverable amount of the computer software has been determined on the basis of value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering a 10-year period with discount rate of 18.2%. The cash flows beyond the 5-year period are constant with zero growth rate. Other key assumptions for the value-in-use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the management's past performance and expectations for the market development.

16. GOODWILL

	RMB'000
COST	
At 1 January 2010, 31 December 2010 and 31 December 2011	956

For the purpose of impairment testing, goodwill arising from the acquisition of subsidiaries has been allocated to cash generating units (the "CGUs") in the provision of telecommunication value-added services segment. During the years ended 31 December 2011 and 31 December 2010, the management of the Group determined that there was no impairment of any of its CGUs containing goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

16. GOODWILL (Cont'd)

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

The recoverable amount of CGUs has been determined on the basis of value in use calculations, which uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 13.88% (2010: 13.88%). 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 three years with annual growth rates ranging from 4.8% to 5% (2010: 4.9% to 5.1%). The forecast sales beyond the third year is constant with zero growth rate (2010: zero). 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 subsidiary 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 carrying amount of the subsidiary to exceed its recoverable amount.

17. INTEREST IN AN ASSOCIATE

	2011	2010
	RMB'000	RMB'000
Unlisted investments, at cost	**1,882**	1,882
Share of post-acquisition results and other comprehensive income, net of dividends received	**885**	459
	2,767	2,341

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17. INTEREST IN AN ASSOCIATE (Cont'd)

As at 31 December 2011 and 2010, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation and operation	Proportion of nominal value of issued capital held by the Group	Principal activity
Zhejiang Lande Congheng Network Service Company Limited ("Congheng")	Incorporated	PRC	20%	Provision of telecommunication solutions and other related services, and trading of hardware and computer software

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

	2011 RMB'000	2010 RMB'000
Total assets	**19,890**	18,987
Total liabilities	**(6,056)**	(7,282)
Net assets	**13,834**	11,705
Group's share of net assets of an associate	**2,767**	2,341
Revenue	**36,667**	28,126
Profit for the year	**2,129**	2,462
Other comprehensive income for the year	**–**	–
Group's share of result of an associate for the year	**426**	492

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

18. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Computer software and hardware	**757**	3,790

19. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2011	2010
	RMB'000	RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**200**	200
Less: progress billings	**(200)**	(150)
	–	50
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**–**	50

At 31 December 2011, there were no retentions held by customers for contract work (2010: Nil).

20. TRADE RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Trade receivables	**13,803**	19,553
Less: Impairment losses	**(6,011)**	(4,817)
	7,792	14,736

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20. TRADE RECEIVABLES (Cont'd)

There were no specific credit period granted to customers except for an average credit period of 60 – 90 days to its trade customers under trading of hardware and computer software segment. Ageing analysis of the trade receivables net of impairment losses as at the end of reporting period, presented based on the due date is as follows:

	2011 RMB'000	2010 RMB'000
Current	**6,882**	12,143
Less than 3 months	**70**	2,278
More than 3 months but less than 1 year	**840**	315
More than 1 year but less than 2 years	**–**	–
More than 2 years	**–**	–
	7,792	14,736

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

The ageing analysis of trade receivables which are past due but not impaired:

	2011 RMB'000	2010 RMB'000
Less than 3 months	**70**	2,278
More than 3 months but less than 1 year	**840**	315
More than 1 year but less than 2 years	**–**	–
More than 2 years	**–**	–
	910	2,593

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB910,000 (2010: RMB2,593,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss.

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20. TRADE RECEIVABLES (Cont'd)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the impairment losses of trade receivables are as follows:

	2011	2010
	RMB'000	RMB'000
Balance at beginning of the year	**4,817**	9,440
Impairment losses recognised during the year	**1,209**	–
Amounts recovered during the year	**(15)**	(4,552)
Eliminated on disposal of subsidiaries	**–**	(71)
Balance at end of the year	**6,011**	4,817

Before accepting any new customer, the Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. Included in the impairment losses are individually impaired trade receivables with an aggregate balance of approximately RMB6,011,000 (2010: RMB4,817,000) which were long outstanding. The Group did not hold any collateral over these balances.

21. PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Prepayment to suppliers	**3,289**	8,044
Advance to employees	**1,445**	2,511
Other receivables	**70,313**	72,154
	75,047	82,709
Less: Impairment losses	**(20,123)**	(26,800)
	54,924	55,909

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

21. PREPAYMENTS AND OTHER RECEIVABLES (Cont'd)

Movement in the impairment losses of other receivables:

	2011 RMB'000	2010 RMB'000
Balance at beginning of the year	**26,800**	21,328
Impairment losses recognised during the year	**–**	16,237
Amounts recovered during the year	**(6,677)**	(10,765)
Balance at the end of the year	**20,123**	26,800

As at 31 December 2011, included in other receivables amounting to approximately RMB582,000 (2010: RMB948,000) were balances due from related parties (note 30 (a)).

The amounts of advance to employees and other receivables are unsecured, interest-free and repayable on demand.

Included in the impairment losses are individually impaired other receivables with an aggregate balance of approximately RMB20,123,000 (2010: RMB26,800,000) which were long outstanding. The Group did not hold any collateral over these balances.

22. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and pledged bank deposits carried interest at average market rate of 0.35% per annum (2010: 0.36%).

Pledged bank deposits represents deposits pledged to a bank to secure the bills payable of the Group and are therefore classified as current assets. The pledged bank deposits was released upon the settlement of the bills payable of the Group during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade and bills payables	**2,042**	9,334
Other payables and accruals	**13,720**	15,327
	15,762	24,661

Ageing analysis of the trade payables presented based on the invoice date is as follows:

	2011 RMB'000	2010 RMB'000
Less than one year	**1,920**	9,212
Over one year but less than two years	**–**	–
Over two years but less than three years	**–**	–
More than three years	**122**	122
	2,042	9,334

There was no specific credit period for payment granted by suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2011, included in other payables amounting to approximately RMB6,801,000 (2010: RMB8,102,000) are balances due to related parties (note 30 (a)).

25. PAID-IN CAPITAL

	Number of shares		Amount	
	2011 **'000**	2010 '000	**2011** **RMB'000**	2010 RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.1 each				
At 1 January and at 31 December	**244,421**	244,421	**24,442**	24,442
Overseas public shares ("H" shares) with par value of RMB0.1 each				
At 1 January and at 31 December	**112,125**	112,125	**11,213**	11,213
Total	**356,546**	356,546	**35,655**	35,655

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. RESERVES

(a) Basis of appropriations to reserves

The transfer to statutory surplus reserve is based on the net profit under the financial statements prepared in accordance with the 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.

27. UNPROVIDED DEFERRED TAX

At 31 December 2011, the Group had unused tax losses amounted to approximately RMB35,834,000 (2010: RMB21,188,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for five years from the respective years in which the loss arose.

Notes to the Consolidated Financial Statements

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28. DISPOSAL OF A SUBSIDIARY

On 31 December 2010, the Group disposed of its 55% entire equity interest in Chengdu Lande E&I Technology Company Limited ("Chengdu Lande") to independent third parties, at an aggregate consideration of RMB800,000. The net assets of Chengdu Lande at the date of disposal were as follows:

	RMB'000
Consideration received:	
Cash	800
Analysis of assets and liabilities over which control was lost:	
Plant and equipment	65
Trade receivables	137
Prepayments and other receivables	615
Bank balances and cash	851
Trade and other payables	(144)
Tax payables	(131)
Non-controlling interests	(627)
Net assets disposed of	766
Gain on disposal of a subsidiary:	
Consideration received	800
Net assets disposed of	(766)
Gain on disposal	34
Net cash outflow arising on disposal:	
Cash consideration	800
Bank balances and cash disposed of	(851)
	(51)

During the year ended 31 December 2010, Chengdu Lande contributed profit of approximately RMB514,000 to the Group's profit, contributed net operating cash inflow of approximately RMB51,060, and paid approximately RMB3,500 and nil in respect of investing activities and financing activities, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

29. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from one to nine years and rentals are under fixed rate throughout the lease period.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 **RMB'000**	2010 RMB'000
Within one year	**1,751**	1,002
In the second to fifth year inclusive	**3,619**	1,772
Over five years	**1,256**	1,329
	6,626	4,103

30. RELATED AND CONNECTED PARTY TRANSACTIONS

(a) Balances with related parties

Amounts due from (to) related parties included in prepayments and other receivables (other payables) as detailed in notes 21 and 24 respectively are set out below:

Name of related party	**Relationship**	**2011** **RMB'000**	2010 RMB'000
Insigma Technology Co. Ltd.	A substantial shareholder of the Company	**(6,801)**	(8,102)
Minority shareholders of subsidiaries		**582**	948

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

(b) During the year ended 31 December 2010, The Group paid a total amount of approximately RMB510,000 for the telecommunication solution service provided by an associate, Congheng.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

(c) Compensation of key management personnel

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

	2011	2010
	RMB'000	RMB'000
Short-term benefits	**1,038**	1,041
Post-employment benefits	**32**	32
	1,070	1,073

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

31. 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 a specified percentage of its payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to consolidated statement of comprehensive income of approximately RMB1,494,000 (2010: RMB1,409,000) represents contributions payable to this scheme by the Group in respect of the current accounting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Plant and equipment		**2,278**	2,604
Intangible assets		**88**	554
Interests in subsidiaries	*(a)*	**19,880**	21,380
Interest in an associate		**1,000**	1,000
		23,246	25,538
Current assets			
Inventories		**–**	1,912
Trade receivables		**541**	3,696
Prepayments and other receivables		**49,277**	42,326
Amounts due from subsidiaries	*(a)*	**3,187**	3,169
Amount due from an associate	*(b)*	**314**	314
Bank balances and cash		**4,268**	7,876
		57,587	59,293
Current liabilities			
Trade and other payables		**9,468**	9,265
Receipt in advance from customers		**–**	1,962
Current tax liabilities		**20**	20
		9,488	11,247
Net current assets		**48,099**	48,046
NET ASSETS		**71,345**	73,584
Capital and reserves			
Paid-in capital		**35,655**	35,655
Reserves	*(c)*	**35,690**	37,929
TOTAL EQUITY		**71,345**	73,584

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Notes:

(a) Interests in subsidiaries

	Note	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost		**19,880**	21,380
Amounts due from subsidiaries – current	*(i)*	**3,187**	3,169
		23,067	24,549
Analysed for reporting purposes as:			
Non-current asset		**19,880**	21,380
Current asset		**3,187**	3,169
		23,067	24,549

(i) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

(b) Amount due from an associate

Amount due from an associate is unsecured, interest free and repayable on demand.

(c) Reserves

	Attributable to owners of the Company			
	Share premium RMB'000	**Statutory surplus reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2010	76,570	7,934	(46,177)	38,327
Total comprehensive expense for the year	–	–	(398)	(398)
At 31 December 2010	76,570	7,934	(46,575)	37,929
Total comprehensive expense for the year	–	–	(2,239)	(2,239)
At 31 December 2011	76,570	7,934	(48,814)	(35,690)

Notes to the Consolidated Financial Statements

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33. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2011 and 2010 are as follows:

Name	Place of establishment/ operations	Issued share capital/Paid up issued registered share capital	Proportion of ownership interest held by Company		Principal activities
			Directly	Indirectly	
Hangzhou Trust Communication Service Company Limited 杭州群思特通信服務有限公司	PRC	Registered capital of RMB1,000,000	55%	–	Provision of telecommunication related services
浙江蘭創通信有限公司	PRC	Registered capital of RMB10,000,000	85%	–	Provision of telecommunication related services
杭州英納特信息科技有限公司	PRC	Registered capital of RMB2,000,000	75%	–	Provision of internet image packaging
杭州華光計算機工程有限公司	PRC	Registered capital of RMB10,000,000	100%	–	Trading of hardware and computer software
杭州華光軟件有限公司	PRC	Registered capital of RMB500,000	–	70%	Trading of hardware and computer software
浙大蘭德科訊有限公司	Hong Kong	Share capital of HKD800,000	100%		Inactive

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 RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**62,918**	141,427	106,066	121,547	131,442
Cost of sales	**(39,767)**	(111,499)	(64,511)	(76,489)	(88,964)
Gross profit	**23,151**	29,928	41,555	45,058	42,478
Other operating income	**7,638**	17,215	2,445	15,513	10,951
Distribution and selling expenses	**(7,244)**	(6,139)	(11,361)	(9,926)	(12,795)
General and administrative expenses	**(27,919)**	(42,368)	(37,226)	(56,655)	(51,509)
Finance costs	**–**	–	–	–	(2,781)
Share of results of associates	**426**	492	(33)	(379)	901
Loss before taxation	**(3,948)**	(872)	(4,620)	(6,389)	(12,755)
Taxation	**(27)**	(232)	(783)	(515)	(1,232)
Loss for the year and total comprehensive expense for the year	**(3,975)**	(1,104)	(5,403)	(6,904)	(13,987)
Attributable to:					
– Owners of the Company	**(3,582)**	(874)	(6,085)	(7,356)	(12,856)
– Non-controlling interests	**(393)**	(230)	682	452	(1,131)
	(3,975)	(1,104)	(5,403)	(6,904)	(13,987)
Loss per share					
– Basic and diluted (RMB'cents)	**1.00**	0.25	1.71	2.16	3.79

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**97,887**	114,484	109,524	131,341	179,796
Total liabilities	**(17,624)**	(30,246)	(23,555)	(32,355)	(78,568)
Non-controlling interests	**(4,573)**	(4,966)	(5,823)	(12,755)	(13,920)
Shareholders' equity	**75,690**	79,272	80,146	86,231	87,308