THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zheda Lande Scitech Limited*, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

ZDLD 浙大蘭德

浙江浙大網新蘭德科技股份有限公司

ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8106)

MAJOR AND CONNECTED TRANSACTION FOR CORPORATE REORGANISATION INVOLVING ZHEJIANG SICHUANG INFORMATION TECHNOLOGY CO. LTD., AND DISCLOSEABLE AND CONNECTED TRANSACTION FOR THE ACQUISITION OF ZHEJIANG LAN CHUANG INFORMATION CO. LTD.

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

COMMERZBANK

Commerzbank AG Hong Kong Branch

A notice convening an extraordinary general meeting of the Company to be held at 2:00 p.m. on 23 November 2007 at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC is set out on pages 140 to 141 of this circular.

A form of proxy for use at the meeting is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein. As regards to the holders of H Shares, the proxy form shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and as regards to the holders of Domestic Shares, the proxy form shall be lodged at the Company's registered office at 4th Floor, 108 Gu Cui Road, Hangzhou City, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment if you so desire.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting.

* *For identification purpose only*

28 September 2007

CHARACTERISTICS OF GEM

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 companies.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"associate(s)", "Connected Person(s)" and "substantial shareholder(s)"	have the same meanings ascribed to them in the GEM Listing Rules;
"Board"	the board of directors of the Company;
"Commerzbank"	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance (Cap.155 of the laws of Hong Kong), and an authorised financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the connected transaction in relation to the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder;
"Company"	Zheda Lande Scitech Limited* (浙江浙大網新蘭德科技股份有限公司), the H Shares of which are listed and traded on the GEM (stock code: 8106);
"Director(s)"	the director(s) of the Company, including the independent non-executive director(s);
"Domestic Shares"	domestic shares of nominal value RMB0.10 each in the share capital of the Company which are subscribed for in RMB;
"EGM"	an extraordinary general meeting of the Company to be convened for the purpose for approving the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder;
"GEM"	the Growth Enterprise Market operated by the Stock Exchange;

* *For identification purpose only*

"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM;
"Group"	the Company and its subsidiaries;
"H Shares"	overseas listed foreign invested shares of nominal value RMB0.10 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars;
"HK$"	Hong Kong dollar, the lawful currency of the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	the independent board committee of the Company constituted by three independent non-executive Directors, namely Mr. Zhang De Xin, Mr. Cai Xiao Fu and Mr. Gu Yu Lin, to advise the Independent Shareholders in relation to the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder;
"Independent Shareholders"	the Shareholders other than Mr. Chen and his associates;
"June Announcement"	the announcement of the Company dated 15 June 2006;
"June 2007 Announcement"	the announcement of the Company dated 22 June 2007;
"Lan Chuang"	浙江蘭創通訊有限公司 (Zhejiang Lan Chuang Information Co. Ltd.*), a company incorporated in the PRC;
"Lan Chuang Acquisition"	the acquisition pursuant to which the Company will be granted with the right to purchase up to but not exceeding 85% interest in Lan Chuang under the Lan Chuang Exclusive Rights to Purchase Contract;
"Lan Chuang Acquisition Consideration"	RMB4,250,000 being the consideration to be paid by the Company under the Lan Chuang Exclusive Right to Purchase Contract;

* *For identification purpose only*

"Lan Chuang Exclusive Business Co-operation Contract"	the exclusive business co-operation contract dated 11 December 2006 entered into between the Company and Lan Chuang;
"Lan Chuang Exclusive Right to Purchase Contract"	the exclusive right to purchase contract dated 11 December 2006 entered among the Company, Lan Chuang, Mr. Jin, Mr. Qiu Jin-song, Mr. Gao Zhan and Mr. Lei Jian-min;
"Lan Chuang Framework Contract"	the framework contract dated 11 December 2006 entered into among the Company, Lan Chuang, Mr. Jin, Mr. Qiu Jin-song, Mr. Gao Zhan and Mr. Lei Jian-min;
"Lan Chuang Pledge Contract"	the pledge contract dated 11 December 2006 entered into among the Company, Lan Chuang and Mr. Jin;
"Lan Chuang Powers of Attorney"	the powers of attorney dated 11 December 2006 and executed by Mr. Jin;
"Lan Chuang Service Fees"	the service fees which Lan Chuang shall pay to the Company pursuant to the Lan Chuang Exclusive Business Co-operation Contract;
"Lan Chuang Structure Contracts"	a suite of contracts and documents dated 11 December 2006, entered into by/ between/ among the Company and/ or Lan Chuang and/or Lan Chuang's shareholders (as the case may be) comprising the Lan Chuang Framework Contract, the Lan Chuang Pledge Contract, the Lan Chuang Exclusive Right to Purchase Contract, the Lan Chuang Exclusive Business Co-orporation Contract and the Lan Chuang Powers of Attorney;
"Lan Chuang Transfer Agreement"	the transfer agreement as contemplated in the Lan Chuang Exclusive Right to Purchase Contract, for the transfer of all or any part of the 85% equity interest in Lan Chuang owned by Mr. Jin;
"Latest Practicable Date"	means 25 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;

"March Announcement"	the announcement of the Company dated 5 March 2007 in connection with the entering of the Sichuang Supplemental Agreements and further delay in despatch of this circular;
"Mr. Chen"	Mr. Chen Ping, the executive Director, Chairman and substantial shareholder of the Company whose shareholding in the Company represents 10.72% of Company's issued share capital;
"Mr. Jin"	Mr. Jin Liang-fu;
"Mr. Zhou"	Mr. Zhou Yu-xiang who currently holds a 10% shareholding in Sichuang and is the general manager of Sichuang;
"Percentage Ratios"	has the same meaning ascribed to it under the GEM Listing Rules;
"PRC"	the People's Republic of China;
"RMB"	Renminbi, the lawful currency of the PRC;
"Second Supplemental Share Transfer Agreement"	the second supplemental agreement dated 22 June 2007 entered into between the Company and Mr. Chen, details of which were set out in the June 2007 Announcement;
"Second Supplemental Sichuang Exclusive Business Co-operation Contract"	the second supplemental exclusive business co-operation contract dated 22 June 2007 entered into between the Company and Sichuang, details of which were set out in the June 2007 Announcement;
"Second Supplemental Sichuang Exclusive Right to Purchase Contract"	the second supplemental exclusive right to purchase contract dated 22 June 2007 entered into between the Company, Sichuang, Mr. Chen and Mr. Zhou, details of which were set out in the June 2007 Announcement;
"Second Supplemental Sichuang Framework Contract"	the second supplemental framework contract dated 22 June 2007 entered into between the Company, Sichuang, Mr. Chen and Mr. Zhou, details of which were set out in the June 2007 Announcement;

"Second Supplemental Sichuang Pledge Contract"	the second supplemental pledge contract dated 22 June 2007 entered into between the Company, Sichuang and Mr. Chen, details of which were set out in the June 2007 Announcement;
"Second Supplemental Sichuang Structure Contracts"	a suite of agreements each dated 22 June 2007 and entered into among the Company, Sichuang, and/ or Mr. Chen, and/or Mr. Zhou comprising the Second Supplemental Sichuang Framework Contract, the Second Supplemental Sichuang Exclusive Right to Purchase Contract, the Second Supplemental Sichuang Exclusive Business Co-operation Contract, and the Second Supplemental Sichuang Pledge Contract;
"SFO"	means the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong);
"Share Transfer Agreement"	the agreement dated 11 December 2006, as amended by the Supplemental Share Transfer Agreement and the Second Supplemental Share Transfer Agreement, entered into between the Company and Mr. Chen for the transfer by the Company to Mr. Chen of its 90% interests in Sichuang;
"Shareholders"	shareholders of the Company;
"Sichuang"	浙江思創信息技術有限公司 (Zhejiang Sichuang Information Technology Co. Ltd.*), a company incorporated in the PRC, which will be owned by Mr. Chen upon Sichuang Completion and Mr. Zhou as to 90% and 10% respectively;
"Sichuang Acquisition Consideration"	the consideration of RMB27,000,000 to be paid by the Company under the Sichuang Exclusive Right to Purchase Contract;
"Sichuang Completion"	completion of the Share Transfer Agreement;
"Sichuang Corporate Reorganisation"	a corporate reorganisation to be implemented by the Company involving Sichuang;

* *For identification purpose only*

"Sichuang Disposal Consideration"	the consideration of RMB27,000,000 to be received by the Company under the Share Transfer Agreement from Mr. Chen;
"Sichuang Exclusive Business Co-operation Contract"	the exclusive business co-operation contract dated 11 December 2006, entered into between the Company and Sichuang as supplemented by the Supplemental Sichuang Exclusive Business Co-operation Contract and the Second Supplemental Sichuang Exclusive Business Co-operation Contract;
"Sichuang Exclusive Right to Purchase Contract"	the exclusive right to purchase contract dated 11 December 2006, entered into among the Company, Sichuang, Mr. Chen and Mr. Zhou as supplemented by the Supplemental Sichuang Exclusive Right to Purchase Contract and the Second Supplemental Sichuang Exclusive Right to Purchase Contract;
"Sichuang Framework Contract"	the framework contract dated 11 December 2006, entered into among the Company, Sichuang, Mr. Chen and Mr. Zhou as supplemented by the Supplemental Sichuang Framework Contract and the Second Supplemental Sichuang Framework Contract;
"Sichuang Pledge Contract"	the pledge contract dated 11 December 2006, entered into among the Company, Sichuang and Mr. Chen as supplemented by the Supplemental Sichuang Pledge Contract and the Second Supplemental Sichuang Pledge Contract;
"Sichuang Powers of Attorney"	the powers of attorney dated 11 December 2006 and executed by Mr. Chen;
"Sichuang Promissory Note"	an interest-free promissory note of RMB27,000,000 to be issued by Mr. Chen in favour of the Company upon the Sichuang Completion as payment of the Sichuang Disposal Consideration;
"Sichuang Second Supplemental Agreements"	a suite of agreements each dated 22 June 2007 and entered into among the Company, Sichuang, and/or Mr. Chen, and/or Mr. Zhou comprising the Second Supplemental Share Transfer Agreement and the Second Supplemental Sichuang Structure Contracts;

"Sichuang Service Fees"	the service fees which Sichuang shall pay to the Company pursuant to the Sichuang Exclusive Business Co-operation Contract;
"Sichuang Structure Contracts"	a suite of contracts and documents each dated 11 December 2006 and entered into by/ between/ among the Company and/ or Sichuang and/ or Sichuang's shareholders (as the case may be) and/ or Mr. Chen and/or Mr. Zhou comprising the Sichuang Framework Contract, the Sichuang Pledge Contract, the Sichuang Exclusive Right to Purchase Contract, the Sichuang Exclusive Business Co-operation Contract and the Sichuang Powers of Attorney as supplemented by the Supplemental Sichuang Structure Contracts and the Second Supplemental Sichuang Structure Contracts;
"Sichuang Supplemental Agreements"	a suite of agreements each dated 1 March 2007 and entered into among the Company, Sichuang, and/or Mr. Chen, and/or Mr. Zhou comprising the Supplemental Share Transfer Agreement and the Supplemental Sichuang Structure Contracts;
"Sichuang Transfer Agreement"	the transfer agreement as contemplated in the Sichuang Exclusive Right to Purchase Contract, for the transfer of the 90% equity interest in Sichuang owned by Mr. Chen upon the completion of the Share Transfer Agreement;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Supplemental Share Transfer Agreement"	the supplemental agreement dated 1 March 2007 entered into between the Company and Mr. Chen, details of which were set out in the March Announcement;
"Supplemental Sichuang Exclusive Business Co-operation Contract"	the supplemental exclusive business co-operation contract dated 1 March 2007 entered into between the Company and Sichuang, details of which were set out in the March Announcement;
"Supplemental Sichuang Exclusive Right to Purchase Contract"	the supplemental exclusive right to purchase contract dated 1 March 2007 entered into between the Company, Sichuang, Mr. Chen and Mr. Zhou, details of which were set out in the March Announcement;

"Supplemental Sichuang Framework Contract"	the supplemental framework contract dated 1 March 2007 entered into between the Company, Sichuang, Mr. Chen and Mr. Zhou, details of which were set out in the March Announcement;
"Supplemental Sichuang Pledge Contract"	the supplemental pledge contract dated 1 March 2007 entered into between the Company, Sichuang and Mr. Chen, details of which were set out in the March Announcement;
"Supplemental Sichuang Structure Contracts"	a suite of agreements each dated 1 March 2007 and entered into among the Company, Sichuang, and/ or Mr. Chen, and/or Mr. Zhou comprising the Supplemental Sichuang Framework Contract, the Supplemental Sichuang Exclusive Right to Purchase Contract, the Supplemental Sichuang Exclusive Business Co-operation Contract, and the Supplemental Sichuang Pledge Contract;
"Value-Added Business"	the value-added telecommunications business in the PRC which improves the economic performance and functional value of the existing network, including two primary categories: the first category being virtual area network (VAN) services, constructed on rental high-speed cable, comprising of fax storage transmission transfer network, video conferencing network, exclusive grouping transfer network and virtual private network (VPN), etc; and the second category being services proliferated from existing telecommunication network, comprising of electronic mails, video text, electronic data interchange (EDI), fax storage and forward, online database search, internet, voice-message and video-on-demand (VOD), etc.; and
"%"	percentage.

浙江浙大網新蘭德科技股份有限公司
ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8106)

Executive Directors:
Mr. Chen Ping
Mr. Shi Lie
Mr. Chao Hong Bo
Ms. Pan Lichun
Mr. Hu Yang Jun

Independent Non-executive Directors
Mr. Zhang De Xin
Mr. Cai Xiao Fu
Mr. Gu Yu Lin

Registered office:
4th Floor
108 Gu Cui Road
Hangzhou City
The People's Republic of China

Principal place of business in Hong Kong:
Units 1116-1119
Sun Hung Kai Center
30 Harbour Road
Wanchai
Hong Kong

28 September 2007

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
FOR CORPORATE REORGANISATION INVOLVING
ZHEJIANG SICHUANG INFORMATION TECHNOLOGY CO. LTD.,
AND
DISCLOSEABLE AND CONNECTED TRANSACTION
FOR THE ACQUISITION OF
ZHEJIANG LAN CHUANG INFORMATION CO. LTD.

INTRODUCTION

By the announcement of the Company dated 11 December 2006 as supplemented by the March Announcement, the June Announcement and the June 2007 Announcement, the Company announced that on 11 December 2006, it entered into (i) the project for Sichuang Corporation Reorganisation; and (ii) the project for Lan Chuang Acquisition.

* *For identification purpose only*

The purpose of this circular is (i) to provide you with further information in relation to the Sichuang Corporate Reorganization and the Lan Chuang Acquisition; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) to set out the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) to give you the notice of the EGM.

SICHUANG CORPORATE REORGANISATION

Sichuang, a 90% owned subsidiary of the Company, proposes to undergo the Sichuang Corporate Reorganisation. Pursuant to the Sichuang Corporate Reorganisation, on 11 December 2006, the Company entered into the Share Transfer Agreement with Mr. Chen for transfer of its 90% equity interest in Sichuang to Mr. Chen at the Sichuang Disposal Consideration of RMB27,000,000 (equivalent to approximately HK$26,733,000) to be settled by issue of the Sichuang Promissory Note to the Company with the result that Mr. Chen will own 90% equity interest in Sichuang upon the Sichuang Completion.

The Company will surrender its controlling shareholdings in Sichuang pursuant to the Share Transfer Agreement, and therefore, Sichuang shall cease to be a subsidiary of the Company.

Although Sichuang shall cease to be a subsidiary of the Company immediately upon completion of the Share Transfer Agreement, the Sichuang Structure Contracts, taken as a whole, will permit the results and financial position of Sichuang to be consolidated with the Company as if it was a subsidiary of the Company and that the economic benefit of the business of Sichuang flows to the Company. Through the Sichuang Structure Contracts, the Company will control Sichuang both operationally and financially.

However, as part of the Sichuang Corporate Reorganisation, the Company entered into the Sichuang Exclusive Right to Purchase Contract with Mr. Chen, pursuant to which the Company will be granted with the right to purchase 90% equity interest in Sichuang from Mr. Chen (which can only exercised by the Company as and when permitted by the relevant PRC laws, rules and regulations) at the Sichuang Acquisition Consideration of RMB27,000,000 (equivalent to approximately HK$26,733,000) which shall be settled by setting off against the Sichuang Disposal Consideration of the same amount by way of cancellation of the Sichuang Promissory Note. Pending the exercise of such exclusive right as and when permitted by the relevant PRC laws, rules and regulations, the Company will, nevertheless, be granted with powers of attorney under the Sichuang Powers of Attorney so as to enable the Company to exercise the voting rights attaching to the 90% interests in Sichuang during the period when the 90% interests in Sichuang remain vested in Mr. Chen, and further, where such exercise is permitted by the relevant PRC laws, rules and regulations, execute such documents so as to perfect the transfer of the 90% interest in Sichuang as contemplated in the Sichuang Exclusive Right to Purchase Contract.

In conjunction with the Sichuang Exclusive Right to Purchase Contract, the Company entered into the Sichuang Exclusive Business Co-operation Contract with Mr. Chen so as to enable the Company to enjoy the right to receive the cash revenues received by Sichuang from its operations, which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure, by way of the Sichuang Service Fees, such payment to be secured by creation of a pledge over 90% equity interest in Sichuang in favour of the Company under the Sichuang Pledge Contract.

(1) Share Transfer Agreement

Date: 11 December 2006, 1 March 2007 and 22 June 2007

Parties: The Company
Mr. Chen

Pursuant to the Share Transfer Agreement, the Company shall transfer its 90% equity interest in Sichuang to Mr. Chen at the Sichuang Disposal Consideration of RMB27,000,000 (equivalent to approximately HK$26,733,000) to be settled by the issue of the Sichuang Promissory Note to the Company.

Zhong Lun Law Firm, the PRC legal advisors of the Company, has confirmed that the Company has the full legal capacity to enter into the Share Transfer Agreement and to transfer the Company's 90% equity interest in Sichuang to third parties, including Mr. Chen.

Principal terms of the Sichuang Promissory Note

Principal amount: RMB27,000,000

Interest: Interest-free

Maturity date: Nil

Transferability: Transferable by the Company

The Sichuang Structure Contracts

(2) Sichuang Framework Contract

Date: 11 December 2006, 1 March 2007 and 22 June 2007

Parties: The Company
Sichuang
Mr. Chen
Mr. Zhou

The Sichuang Framework Contract serves as the backbone of the Sichuang Structure Contracts whereby the respective parties to the Sichuang Framework Contract have agreed to sign each of the Sichuang Exclusive Right to Purchase Contract, the Sichuang Pledge Contract, the Sichuang Exclusive Business Co-operation Contract and the Sichuang Powers of Attorney (where applicable) and provide certain representations and warranties pertinent to the implementation of the Sichuang Structure Contracts and the future co-operation between the Company and Sichuang.

(3) Sichuang Exclusive Right to Purchase Contract and Sichuang Powers of Attorney

(i) Sichuang Exclusive Right to Purchase Contract

Date: 11 December 2006, 1 March 2007 and 22 June 2007

Parties: The Company
Sichuang
Mr. Chen
Mr. Zhou

Under the Sichuang Exclusive Right to Purchase Contract, the Company is granted with the right to acquire a 90% equity interest in Sichuang at the Sichuang Acquisition Consideration which will be set off against the Sichuang Disposal Consideration of the same amount by way of the cancellation of the Sichuang Promissory Note. Such right to purchase may be exercised by the Company at any time subject to the lifting of the restrictions under the relevant PRC laws, rules and regulations against foreign investment in PRC enterprises engaged in the Value-Added Business.

Under the current PRC laws, rules and regulations, there are certain restrictions against foreign investment in PRC enterprises engaged in the Value-Added Business. As the relaxation and lifting of the aforementioned restrictions will be subject to the policy of the PRC Government, the Directors are in no position to advise when these restrictions will be fully lifted. Subject to the lifting of the restrictions under the relevant PRC laws, rules and regulations against foreign investment in PRC enterprises engaged in the Value-Added Business, the Company shall be able to acquire 90% equity interest in Sichuang and such equity interest shall be transferred at no additional consideration to the Company free from any liens, charges or other encumbrances whatsoever and together with the benefit of all rights attaching thereto at the time of exercise of the right to purchase, including the right to all dividend and other distributions thereafter declared, paid or made in respect thereof.

The Sichuang Exclusive Right to Purchase Contract also contains covenants given by Sichuang, Mr. Chen and Mr. Zhou who is a connected person by virtue of his 10% shareholding in Sichuang with respect to the governance and the conduct of the business by Sichuang, including, among others, a covenant by Sichuang, together with Mr. Chen and Mr. Zhou who should procure Sichuang, not to sell, transfer or dispose in any way of Sichuang's assets without the prior written approval of the Company or the Sichuang Exclusive Right to Purchase Contract provides otherwise.

(ii) Sichuang Powers of Attorney

Date: 11 December 2006, 1 March 2007 and 22 June 2007

Executed by: Mr. Chen

Mr. Zhou currently holds 10% shareholdings in Sichuang and Mr. Chen shall hold 90% shareholdings in Sichuang upon the completion of the Share Transfer Agreement. The Sichuang

Structure Contracts do not contain any provision specifying the board composition of Sichuang upon completion of the transactions as contemplated under the Sichuang Structure Contracts. However, Mr. Chen executed a power of attorney in favour of the Company pursuant to which he shall appoint the Company as his only and lawful attorney in his name and on his behalf to do or execute all or any of the following acts or things:

(a) to attend the shareholders' meetings of Sichuang;

(b) to exercise his voting rights in the shareholders' meetings of Sichuang in accordance with the relevant PRC laws and Sichuang's articles of association;

(c) to act as his authorized representative in the shareholders' meeting of Sichuang and appoint the legal representative (chairman of the board of directors), directors, supervisors, general manager and other senior managerial staff of Sichuang; and

(d) to sign the underlying Sichuang Transfer Agreement as contemplated in the Sichuang Exclusive Right to Purchase Contract.

(4) Sichuang Exclusive Business Co-operation Contract and Sichuang Pledge Contract

(i) Sichuang Exclusive Business Co-operation Contract

Date: 11 December 2006, 1 March 2007 and 22 June 2007

Parties: The Company
Sichuang

Pursuant to the Sichuang Exclusive Business Co-operation Contract, the Company will provide to Sichuang extensive technology support and consultation services including but not limited to technology services, technology development, business consultation, licensing of intellectual property rights, market consultation, product research and development and system maintenance. The services to be provided to Sichuang are consistent with the existing principal activities of the Company, i.e. the business of technology development and services, computer software development, internet engineering and sales of self-manufactured products. The parties may, during the term of the Sichuang Exclusive Business Co-operation Contract, (1) enter into further technology and consultation service agreements to prescribe specific terms and mode of provision of such services; and (2) where necessary, enter into lease agreements whereby the Company may lease certain equipment and/or assets to Sichuang.

As consideration, Sichuang will pay to the Company the Sichuang Service Fees, the amount of which will be determined and calculated on the basis of 90% of the cash revenues generated by Sichuang and its subsidiaries (either directly or indirectly controlled or interested in) from their operations through various commercial arrangements after deducting the forecast working capital needs, capital expenditure and other short-term anticipated expenditure. The forecast working capital needs and capital expenditure are determined with reference to the financial figures of working capital needs and capital expenditure of the preceding years while the short-term anticipated expenditure is determined with reference to the actual needs of Sichuang. Such forecast working capital needs and capital expenditure will be prepared annually in the month preceding the beginning of each financial year by Sichuang's management team. The Company will participate in and control such preparation through its control over the composition of Sichuang's management team. The Sichuang Service Fees shall be paid to the Company on a quarterly basis. In the event that Sichuang and its subsidiaries shall generate no surplus cash in any quarter of the financial year as a result of their working capital needs, the Company shall receive no Sichuang Service Fees in such quarter.

The term of the Sichuang Exclusive Business Co-operation Contract is 3 years upon execution. Upon expiry, the Company is entitled to renew the Sichunag Exclusive Business Co-operation Contract unilaterally for every period of 3 years.

The cost of the Sichuang Exclusive Business Co-operation Contract will be borne by the Group through Sichuang.

(ii) Sichuang Pledge Contract

Date: 11 December 2006, 1 March 2007 and 22 June 2007

Parties: The Company
Sichuang
Mr. Chen

To secure the full performance and discharge of the obligations of Sichuang under the Sichuang Exclusive Business Co-operation Contract (including but not limited to the immediate and complete payment of the Sichuang Service Fees), Mr. Chen entered into the Sichuang Pledge Contract and will grant to the Company a continuing first priority security interest over his interests in the issued share capital of Sichuang (the "Sichuang Pledged Securities"). The Company shall be entitled to the first priority to be reimbursed from the proceeds arising out of auction or sale of the Sichuang Pledged Securities for the outstanding Sichuang Service Fees or any damages arising from the occurrence of the specified events, including, among others, any non-payment in full by Sichuang of the Sichuang Service Fees or breach of other obligations under the Sichuang Pledge Contract or any breach by Mr. Chen of terms under the Sichuang Pledge Contract.

Zhong Lun Law Firm, the PRC legal advisors of the Company, has confirmed that each and every term of the Sichuang Pledge Contract is valid, legally binding and enforceable under the PRC laws and pursuant to the Sichuang Pledge Contract, Mr. Chen shall not, without prior written consent of the Company, sell, transfer or further pledge the 90% equity interest in Sichuang to third parties.

Conditions Precedent

The Share Transfer Agreement and the Sichuang Structure Contracts are conditional upon the approval of the Share Transfer Agreement and the Sichuang Structure Contracts and the transactions contemplated thereunder at the EGM by the Independent Shareholders as required by the GEM Listing Rules. Save as the conditions precedent set out therein, there are no termination clauses under all the agreements. By the entering of the Sichuang Supplemental Agreements and the Sichuang Second Supplemental Agreements among the Company, Sichuang, and/or Mr. Chen, and/or Mr. Zhou, the long stop date for fulfillment of the conditions precedent to the Share Transfer Agreement and the Sichuang Structure Contracts is postponed from 31 March 2007 to 31 December 2007.

Consideration for the Share Transfer Agreement and the Sichuang Exclusive Right to Purchase Contract

The Sichuang Disposal Consideration of RMB27,000,000 to be paid by Mr. Chen to the Company in respect of the transfer of the 90% interest in Sichuang pursuant to the Share Transfer Agreement, shall be settled by issue of the Sichuang Promissory Note by Mr. Chen to the Company.

The Sichuang Acquisition Consideration is the consideration of RMB27,000,000, which is payable by the Company upon granting to the Company of the exclusive right to purchase 90% interest in Sichuang under the Sichuang Exclusive Right to Purchase Contract and will be set-off against the Sichuang Disposal Consideration of the same amount by cancelling the Sichuang Promissory Note.

Both of the Sichuang Disposal Consideration and the Sichuang Acquisition Consideration have been agreed after arm's length negotiations with reference to the audited net asset value of Sichuang for the year ended 31 December 2005 of approximately RMB35,947,000, prepared under accounting principles generally accepted in the PRC and the original capital contribution by the Company into Sichuang of RMB27,000,000.

The Directors are of the view that both of the Sichuang Acquisition Consideration and the Sichuang Disposal Consideration as mentioned above have been negotiated and determined on an arms length, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons and Benefits for the Sichuang Corporate Reorganisation involving the Share Transfer Agreement and the Sichuang Structure Contracts

Pursuant to Regulations concerning Management of Foreign-Invested Telecom Enterprises, the foreign ownership percentage in a foreign-invested telecom enterprise engaging in Value-Added Business shall not exceed 50%.

The Company contemplates that the Sichuang Disposal Consideration to be paid to the Company by Mr. Chen under the Share Transfer Agreement for the 90% interests in Sichuang, will be fully annihilated by the Sichuang Acquisition Consideration to be paid to Mr. Chen by the Company under the Sichuang Exclusive Right to Purchase Contract for granting of the exclusive right to purchase the 90% interests in Sichuang. SHINEWING (HK) CPA Limited, the auditors of the Company, has confirmed that no monetary gain or loss will be incurred by the Company under the Sichuang Corporate Reorganisation.

The auditors of the Company also confirmed that the Sichuang Corporate Reorganisation will not have significant impact on the consolidated financial statements of the Company. The impact on the consolidated financial statements of the Company refers to the legal and professional fees, administrative expenses and other incidental costs incurred in the execution of the Sichuang Corporate Reorganization and continuing connected transactions. Further, the auditors of the Company confirmed that the Sichuang Exclusive Business Co-operation Contract, being a continuing connected transaction, will not have significant impact on the consolidated financial statements of the Company as the relevant transactions will be eliminated on consolidation, as if Sichuang was a subsidiary of the Company.

The Sichuang Corporate Reorganisation involving the Share Transfer Agreement and the Sichuang Structure Contracts is made without incurring any monetary loss, and is made in order to satisfy the PRC's regulations regarding the foreign ownership restrictions on the Value-Added Business. As a result of the Share Transfer Agreement and the Sichuang Structure Contracts, the Group is able to recognise and receive the economic benefit of the business and operations of Sichuang, without breaching the current PRC foreign ownership restrictions on the Value-Added Business. Although Sichuang shall cease to be a subsidiary of the Company immediately upon completion of the Share Transfer Agreement, the Sichuang Structure Contracts, taken as a whole, will permit the results and financial position of Sichuang to be consolidated with the Company as if it was a subsidiary of the Company and that the economic benefit of the business of Sichuang flows to the Company.

Under the contractual arrangements between the Company and Sichuang, the Company shall be entitled to substantially absorb all of the operating profits and residual benefits generated by Sichuang. The Company has the rights to receive the cash revenues received by Sichuang from its operations, which are surplus to its requirements, having regard to its forecast working capital needs, capital expenditure and other short-term anticipated expenditure, by way of service fees. These rights exist even if the Company does not exercise the right to acquire the equity interests in Sichuang.

SHINEWING (HK) CPA Limited, the auditors of the Company, has confirmed that, after the Share Transfer Agreement, Sichuang would still be consolidated into the Company's consolidated financial statements as a special purpose entity ("SPE") under HKAS-Int 12; Consolidation – Special Purpose Entities, on the ground that the Company maintains control over Sichuang by virtue of the various contractual arrangements under the Sichuang Corporate Reorganisation. HKAS-Int 12 applies to current situation as it addresses the issue of consolidation of a SPE where an entity that engages in transactions with a SPE in substance controls the SPE and retains a significant beneficial interest in the SPE's activities even though it may own little or none of the SPE's equity. This fits the case of Sichuang where after the completion of the Sichuang Corporate Reorganisation, the Company does not legally own any of Sichuang's equity but it receives benefit from Sichuang's activities. HKAS-Int12 therefore applies.

After the Share Transfer Agreement and the Sichuang Structure Contracts are entered into, the Company shall cease to be an owner of the 90% equity interest in Sichuang. However, the Company shall remain to enjoy the economic benefits of Sichuang through receiving the

Sichuang Service Fees contemplated under the Sichuang Exclusive Business Co-operation Contract. To secure the full performance of the obligations of Sichuang under the Sichuang Exclusive Business Co-operation Contract (including but not limited to the immediate and complete payment of the Sichuang Service Fees), Mr. Chen shall by way of the Sichuang Pledge Contract grant to the Company a continuing first priority security interest over his interests in the Sichuang Pledged Securities.

If and only if the specified events (including, among others, any non-payment in full by Sichuang of the Sichuang Service Fees or breach of other obligations under the Sichuang Pledge Contract or any breach by Mr. Chen of terms under the Sichuang Pledge Contract) contemplated under the Sichuang Pledge Contract occur, the Company shall have the first priority to be reimbursed from the proceeds arising out of auction or sale of the Sichuang Pledged Securities for the outstanding Sichuang Service Fees or any damages arising from the occurrence of the specified events.

The Board believes that the terms of the Sichuang Structure Contracts, the Share Transfer Agreement and the Sichuang Exclusive Business Co-operation Contract are negotiated on arm's length basis, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Zhong Lun Law Firm, the PRC legal advisors of the Company, has confirmed that each of the constituent contracts and documents of the Share Transfer Agreement and the Sichuang Structure Contracts is valid, legally binding and enforceable under the PRC laws. The PRC legal advisors of the Company further confirmed that the whole arrangement of the Share Transfer Agreement and the Sichuang Structure Contracts is valid, legal binding and enforceable under the PRC laws and does not contravene any laws, rules or regulations of the PRC.

The Sichuang Promissory Note is merely an instrument to facilitate the execution of the Sichuang Corporate Reorganisation and will ultimately be cancelled as consideration for the Sichuang Acquisition Consideration pursuant to the Sichuang Exclusive Right to Purchase Contract. As such, the Company does not bear any risk to hold the Sichuang Promissory Note.

Risks and Rewards for the Sichuang Corporate Reorganisation involving the Share Transfer Agreement and The Sichuang Structure Contracts

Subject to PRC law limitations on foreign ownership, the foreign ownership percentage in a foreign-invested telecom enterprise engaging in the Value-Added Business shall not exceed 50%. Pursuant to the Sichuang Corporate Reorganisation, there will be no direct equity ownership interest vested in Sichuang by the Company, thus such arrangement is not in violation of the PRC law in relation to limitations on foreign ownership. However, the Company cannot assure that the PRC government would agree that such arrangement comply with PRC licensing, registration or other regulatory requirements in the future. If the PRC government determines that the Company does not comply with applicable law, it could require the Company to discontinue or restrict the Company's operations, restrict the Company's right to collect revenues, require the Company to restructure the Company's operations, impose additional conditions or requirements with which the Company may not be able to comply, or take other regulatory or enforcement actions against the Company that could be harmful to the Company's business.

In the worst case of liquidation, the beneficial owners for the distribution of the assets in Sichuang shall be its shareholders whose names have been registered with the relevant administrations of industry and commerce. The shareholders of Sichuang will receive the remaining assets in proportion to their shareholdings respectively after liquidation fee, employee wage, social insurance, statutory compensation, taxes payable and corporate liabilities have been paid off.

After the entry into the Share Transfer Agreement, Mr Chen, in the capacity of a shareholder of Sichuang will receive the remaining assets of Sichuang upon liquidation.

Zhong Lun Law Firm, the PRC legal advisors of the Company, has confirmed that if liquidation happens before the Company exercises its right to purchase under the Sichuang Exclusive Right to Purchase Contract, the Company is not entitled to Sichuang's remaining assets in the capacity of a shareholder, given that Mr. Chen still remains as a shareholder of Sichuang.

Information about Sichuang

Sichuang is a company incorporated in the PRC in September 2002 and is principally engaged in the business of computer software and hardware, internet techniques and related products' development, and technical services. Its registered capital was RMB30,000,000 in which 90% were originally contributed by the Company as to RMB27,000,000. The Company has held interests in Sichuang for a period for more than 12 months.

Sichuang did not engage in the Value-Added Business before. Sichuang's plans to expand into such markets include obtaining licence for Valued-Added Business. However, as Value-Added Business is different from traditional businesses conducted by Sichuang, it is difficult to estimate the amount to be invested at this stage.

The audited net asset value of Sichuang as at 31 December 2006, prepared under accounting principles generally accepted in the PRC, was approximately RMB41,550,000.

The table below sets out the audited profit before and after taxation of Sichuang for each of the two years ended 31 December 2006, prepared under accounting principles generally accepted in the PRC, respectively.

Sichuang	Year ended 31 December 2005 *RMB*	Year ended 31 December 2006 *RMB*
Profit before taxation	5,924,000	1,428,000
Profit after taxation	5,073,000	2,125,000

The audited consolidated net asset value of Sichuang and its subsidiaries as at 31 December 2006 and the audited consolidated loss before and after taxation of Sichuang and its subsidiaries for each of the two years ended 31 December 2006, prepared under the International Financial Reporting Standards and in conformity with the accounting policies adopted by the Group in all material respects, are included in the accountants' report of Sichuang setting out in this circular.

Information about the Company

The Company is a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the GEM. The Company is principally engaged in the business of technology development and services, computer software development, internet engineering and sales of self-manufactured products.

The Company has engaged in the Valued-Added Business as disclosed in the Company's June Announcement. The Company, through Zhejiang Tianxin Science and Technology Development Company Limited, has diversified into the Value-Added Business.

The audited turnover of the Group for each of the two years ended 31 December 2005 and 31 December 2006 were approximately RMB118,208,000 and approximately RMB163,752,000 respectively.

The audited net loss of the Group for the year ended 31 December 2005 was approximately RMB28,348,000. The audited net loss of the Group for the year ended 31 December 2006 was approximately RMB21,017,000.

The audited net asset value (excluding minority interests) of the Group as at 31 December 2005 and 31 December 2006 were approximately RMB121,181,000 and approximately RMB100,164,000 respectively.

Requirements under GEM Listing Rules

Major Transaction

The consideration ratio for each of the aggregate of the Share Transfer Agreement and the Sichuang Exclusive Right to Purchase Contract is more than 25% but less than 75%, thus the entry of each of the Share Transfer Agreement and the Sichuang Exclusive Right to Purchase

Contract constitutes a major transaction (realisation/acquisition) under Chapter 19 of the GEM Listing Rules. The entering into of each of the Share Transfer Agreement and the Sichuang Exclusive Right to Purchase Contract are conditional upon the approval by Shareholders in the EGM and subject to the disclosure requirement as set out in Rule 19.34 of the GEM Listing Rules.

Connected Transaction

Mr. Chen is the executive Director, Chairman and substantial shareholder of the Company whose shareholding represents 10.72% of the Company's issued share capital, and therefore, constitutes a Connected Person of the Company.

The entry of each of the Share Transfer Agreement and the Sichuang Exclusive Right to Purchase Contract constitutes a connected transaction under Chapter 19 and Chapter 20 of the GEM Listing Rules. Each of the Sichuang Acquisition Consideration and the Sichuang Disposal Consideration is more than HK$10,000,000 and the consideration ratio is more than 25%, the entering into of each of the Share Transfer Agreement and the Sichuang Exclusive Right to Purchase Contract are subject to the reporting and announcement requirements as stated in Rules 20.45 to 47 of the GEM Listing Rules and subject to Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Mr. Chen, as a substantial shareholder of the Company, and his associates will be required to abstain from voting in EGM.

The EGM will be convened for the purpose of seeking the Independent Shareholders' approval for the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder in which voting will be taken by poll. Mr. Chen and his associates will abstain from voting on the resolutions to approve the Share Transfer Agreement and the Sichuang Structure Contracts and the transactions contemplated thereunder at the EGM.

Continuing Connected Transaction

The entry into the Sichuang Exclusive Business Co-operation Contract constitutes a continuing connected transaction under Chapter 20 of the GEM Listing Rules. As each of the percentage ratios is less than 25% and its annual consideration is less than HK$10,000,000, the entering into the Sichuang Exclusive Business Co-operation Contract is subject to the reporting and announcement requirements under the GEM Listing Rules but exempt from the Independent Shareholders' approval requirement pursuant to rule 20.34 of the GEM Listing Rules. Shareholders may refer to the announcement of the Company dated 11 December 2006 for details in respect of the continuing connected transaction constituted by the Sichuang Exclusive Business Co-operation Contract. Further announcement will be made if the amount of the Sichuang Service Fees exceeds the limits under the GEM Listing Rules. The Company is required to comply with the annual requirements under Rule 20.38 and 20.39 of the GEM Listing Rules in respect of the Sichuang Exclusive Business Co-operation Contract.

THE LAN CHUANG STRUCTURE CONTRACTS

A brief summary of the terms of each of the constituent contracts and documents of the Lan Chuang Structure Contracts are set out as follows:

(1) Lan Chuang Framework Contract

Date: 11 December 2006

Parties: The Company
Lan Chuang
Mr Jin
Mr Qiu Jin-song
Mr. Gao Zhan
Mr. Lei Jian-min

The Lan Chuang Framework Contract serves as the backbone of the Lan Chuang Structure Contracts whereby the respective parties to the Lan Chuang Framework Contract shall agree to sign each of the Lan Chuang Exclusive Business Co-operation Contract, the Lan Chuang Pledge Contract, the Lan Chuang Exclusive Right to Purchase Contract, and the Lan Chuang Powers of Attorney (where applicable) and provide certain representations and warranties pertinent to the implementation of the Lan Chuang Structure Contracts and the future co-operation between the Company and Lan Chuang.

(2) Lan Chuang Exclusive Right to Purchase Contract

Date: 11 December 2006

Parties: The Company
Lan Chuang
Mr. Jin
Mr. Qiu Jin-song
Mr. Gao Zhan
Mr Lei Jian-min

Under the Lan Chuang Exclusive Right to Purchase Contract, the Company will pay to Mr. Jin RMB4,250,000 (equivalent to approximately HK$4,208,000) and Mr. Jin will grant to the Company (or its designee) the right to acquire up to but not exceeding 85% equity interest in Lan Chuang being owned by Mr. Jin. Such right to purchase may be exercised by the Company (or its designee) at a nil consideration at any time subject to the lifting of the restrictions under the relevant PRC laws, rules and regulations against foreign investment in PRC enterprises engaged in the Value-Added Business.

Under the current PRC laws, rules and regulations, there are certain restrictions against foreign investment in PRC enterprises engaged in the Value-Added Business. As the relaxation and lifting of the aforementioned restrictions will be subject to the policy of the PRC Government, the Directors are in no position to advise when these restrictions will be fully lifted. Subject to the lifting of the restrictions under the relevant PRC laws, rules and regulations against foreign investment in PRC enterprises engaged in the Value-Added Business, the Company shall be able to acquire up to but not exceeding 85% equity interest in Lan Chuang (or any part thereof) and such equity interest shall be transferred at no additional consideration to the Company free from any liens, charges or other encumbrances whatsoever and together with the benefit of all rights attaching thereto at the time of exercise of the right to purchase, including the right to all dividend and other distributions thereafter declared, paid or made in respect thereof.

The Lan Chuang Exclusive Right to Purchase Contract also contains covenants given by Lan Chuang, Mr. Jin, Mr. Qiu Jiu-song, Mr. Gao Zhan and Mr. Lei Jian-min with respect to the governance and the conduct of the business by Lan Chuang, including, among others, a covenant by Lan Chuang, together with Mr. Jin, Mr. Qiu Jiu-song, Mr. Gao Zhan and Mr. Lei Jian-min who should procure Lan Chuang, not to sell, transfer or dispose in any way of Lan Chuang's assets without the prior written approval of the Company or the Lan Chuang Exclusive Right to Purchase Contract provides otherwise.

(3) Lan Chuang Pledge Contract

Date: 11 December 2006

Parties: The Company
Lan Chuang
Mr. Jin

To secure the full performance and discharge of the obligations of Lan Chuang under the Lan Chuang Exclusive Business Co-operation Contract (including but not limited to the immediate and complete payment of the Lan Chuang Service Fees), Mr. Jin entered into the Lan Chuang Pledge Contract and will grant to the Company a continuing first priority security interest over his interests in the issued share capital of Lan Chuang (the "Lan Chuang Pledged Securities"). The Company shall be entitled to exercise its right to purchase the Lan Chuang Pledged Securities for free or otherwise sell the Lan Chuang Pledged Securities, on the occurrence of specified events, including, among others, any non-payment in full by Lan Chuang of the Lan Chuang Service Fees or breach of other obligations under the Lan Chuang Pledge Contract or any breach by Mr. Jin of terms under the Lan Chuang Pledge Contract.

Zhong Lun Law Firm, the PRC legal advisors of the Company, has confirmed that each and every term of the Lan Chuang Pledge Contract is valid, legally binding and enforceable under the PRC laws.

(4) Lan Chuang Exclusive Business Co-operation Contract

Date: 11 December 2006

Parties: The Company
Lan Chuang

Pursuant to the Lan Chuang Exclusive Business Co-operation Contract, the Company has agreed to provide to Lan Chuang extensive technology support and consultation services including but not limited to technology services, technology development, business consultation, licensing of intellectual property rights, market consultation, product research and development and system maintenance. The services to be provided to Lan Chuang are consistent with the existing principal activities of the Company, i.e. the business of technology development and services, computer software development, internet engineering and sales of self-manufactured products. The parties (or their related parties) may, during the effective period of the Lan Chuang Exclusive Business Co-operation Contract, (1) enter into further technology and consultation service agreements to prescribe specific terms and mode of provision of such services; (2) where necessary, enter into licensing agreements whereby the Company may license certain intellectual property rights to Lan Chuang; and (3) where necessary, enter into lease agreements whereby the Company may lease certain equipment and/or assets to Lan Chuang.

As consideration, Lan Chuang will pay to the Company the Lan Chuang Service Fees, the amount of which will be determined and calculated on the basis of 85% of the cash revenues generated by Lan Chuang and its subsidiaries (either directly or indirectly controlled or interested in) from their operations through various commercial arrangements after deducting the forecast working capital needs, capital expenditure and other short-term anticipated expenditure. The forecast working capital needs and capital expenditure are determined with reference to the financial figures of working capital needs and capital expenditure of the preceding years while the short-term anticipated expenditure is determined with reference to the actual needs of Lan Chuang. Such forecast working capital needs and capital expenditure are prepared annually in the month preceding the beginning of each financial year by Lan Chuang's management team. The Company will participate in and control the composition of Lan Chuang's management team. The Lan Chuang Service Fees shall be paid to the Company on a quarterly basis. In the event that Lan Chuang and its subsidiaries shall generate no surplus cash in any quarter of the financial year as a result of their working capital needs, the Company shall receive no Lan Chuang Service Fees in such quarter.

Under the Lan Chuang Exclusive Business Co-operation Contract, the parties have agreed that the Company shall own all present and future rights, proprietary rights, interests, intellectual property rights generated or created as a result of performance of the Lan Chuang Exclusive Business Co-operation Contract, whether or not they are developed by Lan Chuang, on an exclusive basis.

(5) Lan Chuang Powers of Attorney

Date: 11 December 2006

Executed by: Mr. Jin

Each of Mr. Qiu Jin-song, Mr. Gao Zhan and Mr. Lei Jian-min currently holds 5% shareholdings in Lan Chuang and Mr. Jin holds 85% shareholdings in Lan Chuang. The Lan Chuang Structure Contracts do not contain any provision specifying the board composition of Lan Chuang upon completion of the transactions as contemplated under the Lan Chuang Structure Contracts. However, Mr. Jin executed a power of attorney in favour of the Company pursuant to which he shall appoint the Company as his only and lawful attorney in his name and on his behalf to do or execute all or any of the following acts or things:

(i) to attend the shareholders' meetings of Lan Chuang;

(ii) to exercise his voting rights in the shareholders' meetings of Lan Chuang in accordance with the relevant PRC laws and Lan Chuang's articles of association;

(iii) to act as his authorized representative in the shareholders' meeting of Lan Chuang and appoint the legal representative (chairman of the board of directors), directors, supervisors, general manager and other senior managerial staff of Lan Chuang; and

(iv) to sign the underlying Lan Chuang Transfer Agreement as contemplated in the Lan Chuang Exclusive Right to Purchase Contract.

Consideration for the Lan Chuang Structure Contracts

The Lan Chuang Acquisition Consideration shall be RMB4,250,000 (equivalent to approximately HK$4,208,000), payable by the Company to Mr. Jin in respect of granting of the right to acquire up to but not exceeding 85% equity interest in Lan Chuang under the Lan Chuang Exclusive Right to Purchase Contract. The Lan Chuang Acquisition Consideration, being provided in cash, is currently expected to be funded by internal resources of the Group.

The Lan Chuang Acquisition Consideration has been agreed after arm's length negotiations with reference to the audited net asset value of Lan Chuang for the year ended 31 December 2005 of approximately RMB4,596,000, prepared under accounting principles generally accepted in the PRC and represents a premium of approximately 8.8% of 85% of such net asset value (equivalent to approximately RMB3,907,000).

The Lan Chuang Acquisition Consideration will be fully settled by the Company before 31 December 2007.

The Directors are of the view that the Lan Chuang Acquisition Consideration and the payment of amount thereby to Mr Jin in the mode as mentioned above has been negotiated and determined on an arm's length and on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Lan Chuang Acquisition Consideration payable to Mr. Jin will be satisfied by cash out of the internal resources of the Group.

Reasons and Benefits of Entering into the Lan Chuang Structure Contracts

Pursuant to Regulations concerning Management of Foreign-Invested Telecom Enterprises, the foreign ownership percentage in a foreign-invested telecom enterprise engaging in Value-Added Business shall not exceed 50%.

As a result of the Lan Chuang Structure Contracts, the Group is able to recognize and receive the economic benefit of the business and operations of Lan Chuang. The Lan Chuang Structure Contracts are also designed to provide the Company with effective control over and (to the extent permitted by the relevant PRC laws, rules and regulation) the right to acquire the equity interest in Lan Chuang. Further, the arrangements under the Lan Chuang Structure Contracts, taken as a whole, permit the results and financial position of Lan Chuang to be consolidated with the Company as if it was a subsidiary of the Company and that the economic benefit of the businesses of Lan Chuang and its subsidiaries flows to the Company. Through the Lan Chuang Structure Contract, the Company will control Lan Chuang both financially and operationally.

Under the contractual arrangements between the Company and Lan Chuang, the Company is entitled to substantially absorb all of the operating profits and residual benefits generated by Lan Chuang. The Company has the rights to receive the cash revenues received by Lan Chuang from its operations, which are surplus to its requirements, having regard to its forecast working capital needs, capital expenditure and other short-term anticipated expenditure, by way of service fees. These rights exist even if the Company does not exercise the right to acquire the equity interests in Lan Chuang.

SHINEWING (HK) CPA Limited, the auditors of the Company, has confirmed that, after the Lan Chuang Acquisition, Lan Chuang will be consolidated into the Company's consolidated financial statements as the SPE under HKAS-Int 12; Consolidation – Special Purpose Entities, on the ground that the Company has control over Lan Chuang by virtue of the various contractual arrangements under the Lan Chuang Structural Contracts. HKAS-Int 12 applies to current situation as it addresses the issue of consolidation of a SPE where an entity that engages in transactions with a SPE in substance controls the SPE and retains a significant beneficial interest in the SPE's activities even though it may own little or none of the SPE's equity. This fits the case of Lan Chuang where after the completion of the Lan Chuang Acquisition, the Company does not legally own any of Lan Chuang's equity but it receives benefit from Lan Chuang's activities. HKAS-Int12 therefore applies. Further, the auditors of the Company confirmed that the Lan Chuang Exclusive Business Co-operation Contract, being a continuing connected transaction will not have significant impact on the consolidated financial statements of the Company as the relevant transactions will be eliminated on consolidation, as if Lan Chunag was a subsidiary of the Company.

The Board believes that the terms of the Lan Chuang Structure Contracts are negotiated on arm's length basis, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In summary, the Lan Chuang Structure Contracts provide the Company with:

1. the right to receive the cash revenues received by Lan Chuang from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

2. the right to acquire 85% equity interest of Lan Chuang, as and when permitted by the relevant PRC laws, rules and regulations, for the amount of RMB4,250,000; and

3. a pledge over 85% equity interest in Lan Chuang.

Zhong Lun Law Firm, the PRC legal advisors of the Company, has confirmed that each of the constituent contracts and documents of the Lan Chuang Structure Contracts is valid, legally binding and enforceable under the PRC laws. The PRC legal advisors of the Company further confirmed that the whole arrangement of the Lan Chuang Structure Contracts is valid, legally binding and enforceable under the PRC laws and does not contravene any laws, rules or regulations of the PRC.

Risks and Rewards for the Lan Chuang Acquisition

Subject to PRC law limitations on foreign ownership, the foreign ownership percentage in a foreign-invested telecom enterprise engaging in the Value-Added Business shall not exceed 50%. Pursuant to the Lan Chuang Structure Contracts, there will be no direct equity ownership interest vested in Lan Chuang by the Company, thus such arrangement is not in violation of the PRC law in relation to limitations on foreign ownership. However, the Company cannot assure that the PRC government would agree that such arrangement comply with PRC licensing, registration or other regulatory requirements in the future. If the PRC government determines that the Company does not comply with applicable law, it could require the Company to discontinue or restrict the Company's operations, restrict the Company's right to collect revenues, require the Company to restructure the Company's operations, impose additional conditions or requirements with which the Company may not be able to comply, or take other regulatory or enforcement actions against the Company that could be harmful to the Company's business.

In the worst case of liquidation, the beneficial owners for the distribution of the assets in Lan Chuang shall be its shareholders whose names have been registered with the relevant administrations of industry and commerce. The shareholders of Lan Chuang will receive the remaining assets in proportion to their shareholdings respectively after liquidation fee, employee wage, social insurance, statutory compensation, taxes payable and corporate liabilities have been paid off.

Information about Lan Chuang

Lan Chuang is a company incorporated in the PRC in June 2005 and is principally engaged in the business of research and development, assignment, consultation and service with respect to computer hardware and its supporting equipments, as well as in the business of the sale and data service with respect to computer hardware and its supporting equipments, telecommunication equipments and electronic devices.

Its registered capital was RMB5,000,000 in which 85% were contributed by Mr. Jin as to RMB4,250,000. The remaining 15% share capital were contributed by Mr. Qiu Jin-song, Mr. Gao Zhan and Mr. Lei Jian-min in equal proportion, who are third parties independent of and not connected with the Company and its Connected Persons. As at the Latest Practicable Date, Lan Chuang's shareholdings is held as to 85% by Mr. Jin, 5% by Mr. Qiu Jin-song, 5 % by Mr. Gao Zhan and 5% by Mr. Lei Jian-min.

The audited net asset value of Lan Chuang as at 31 December 2005 and 31 December 2006, prepared under accounting principles generally accepted in the PRC, were approximately RMB4,596,000 and RMB3,685,000 respectively.

Lan Chuang was established and commenced business in June 2005 and entered into its set-up stage, which was characterised by its product and operation system development and market promotion activities, until the end of 2005. It did not generate any revenue during the set-up stage and only started to generate revenue in 2006. The table below sets out the audited loss before and after taxation for Lan Chuang for each of the two years ended 31 December 2006, prepared under accounting principles generally accepted in the PRC, respectively.

Lan Chuang	**Year ended 31 December 2005** *RMB*	**Year ended 31 December 2006** *RMB*
Loss before taxation	404,000	911,000
Loss after taxation	404,000	911,000

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than the aforesaid, save as Mr. Jin who holds 1% shareholdings in the Company, Lan Chuang's shareholders and its ultimate beneficial owners do not hold any shares of the Company and are third parties independent of and not connected with the Company and its Connected Person.

After the completion of the Lan Chuang Structure Contract, Lan Chuang will be consolidated into the Group as if it was a subsidiary of the Group. The earnings, assets and liabilities of Lan Chuang will be included in the Group's consolidated financial statements. For the year ended 31 December 2006, Lan Chuang recorded a net loss of approximately RMB713,000 (prepared under the Financial International Reporting Standards and inconformity with the accounting policies adopted by the Group in all material respects). The total assets and total liabilities of Lan Chuang as at 31 December 2006 are approximately RMB4,022,000 and RMB146,000, respectively (prepared under the Financial International Reporting Standards and inconformity with the accounting policies adopted by the Group in all material respects).

Requirements under GEM Listing Rules

Discloseable Transaction

The consideration ratio of the Lan Chuang Structure Contracts is more than 5% but less than 25%, thus the transaction constitutes a discloseable transaction under Chapter 19 of the GEM Listing Rules.

Connected Transaction

Mr. Jin is a member of senior management of the Company with the position as the vice-president of the Company. Also, Mr. Jin and Mr Chen are both members of the initial management shareholders of the Company, as disclosed on page 113 of the Company's initial public offering prospectus dated 24 April 2002, and accordingly, Mr. Jin is a Connected Person of the Company by virtue of Rule 20.11 of the GEM Listing Rules. Apart from the foregoing, Mr. Jin and Mr. Chen do not have other relationship which ought to be disclosed under the GEM Listing Rules. Further, Mr. Jin holds 85% equity interest in Lan Chung, Lan Chuang is an associate of Mr. Jin and therefore a Connected Person of the Company. The entering into of the Lan Chuang Structure Contracts also constitutes a connected transaction for the Company under the GEM Listing Rules. Since the Lan Chuang Acquisition Consideration is less than HK$10,000,000 and each of the Percentage Ratios is less than 25%, the Lan Chuang Structure Contracts are exempt from the Independent Shareholders' approval requirements pursuant to Rule 20.32 of the GEM Listing Rules.

Continuing Connected Transaction

The entry into the Lan Chuang Exclusive Business Co-operation Contract constitutes a continuing connected transaction under Chapter 20 of the GEM Listing Rules. As each of the percentage ratios is less than 25% and its annual consideration is less than HK$10,000,000, the entering into the Lan Chuang Exclusive Business Co-operation Contract is subject to the reporting and announcement requirements under the GEM Listing Rules but exempt from the Independent Shareholders' approval requirement pursuant to rule 20.34 of the GEM Listing Rules. Shareholders may refer to the announcement of the Company dated 11 December 2006 for details in respect of the continuing connected transaction constituted by the Lan Chuang Exclusive Business Co-operation Contract. Further announcement will be made if the amount of the Lan Chuang Service Fees exceeds the limits under the GEM Listing Rules. The Company is required to comply with the annual requirements under Rule 20.38 and 20.39 of the GEM Listing Rules in respect of the Lan Chuang Exclusive Business Co-operation Contract.

EGM

Set out on pages 140 to 141 of this circular is a notice of the EGM to be held at 2:00 p.m. on 23 November at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC for the purpose of considering and, if thought fit, passing an ordinary resolution to approve the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder. Mr. Chen, holding 36,392,320 Domestic Shares, representing approximately 10.72% of the issued share capital of the Company as at the Latest Practicable Date, and his associates will abstain from voting on the resolution to approve the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder at the EGM. The voting will be taken by poll.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein. As regards to the holders of H Shares, the proxy form shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and as regards to the holders of Domestic Shares, the proxy form shall be lodged at the Company's registered office at 4th Floor, 108 Gu Cui Road, Hangzhou City, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding the EGM (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

OPINION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the opinion of the Independent Board Committee given to the Independent Shareholders concerning the Share Transfer Agreement and the Sichuang Structure Contracts; and (ii) the letter from Commerzbank setting out in this circular which contains the advice of Commerzbank given to the Independent Board Committee and the Independent Shareholders in relation to the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder and the principle factors and reasons considered by Commerzbank in arriving at its advice.

The Independent Board Committee, having taken into account the advice of Commerzbank, are of the opinion that the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, and that the terms thereof are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder.

RECOMMENDATION

The Directors consider that the terms of the Share Transfer Agreement and the Sichuang Structure Contracts are fair and reasonable and are in the interests of the Company and its Shareholders as a whole, and accordingly, recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Transfer Agreement and the Sichuang Structure Contracts.

PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to article 76 of the Articles of Association, a resolution put to the vote of the general meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

(i) by the chairman of the meeting;

(ii) by at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders (including proxy) who, alone or together, representing one-tenth or more of the total voting rights of all Shareholders having the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact such resolution has been passed. There is no need to provide evidence on the number or proportion of votes in favour of or against such resolution.

ADDITIONAL INFORMATION

Your attention is drawn to the financial information of the Company, the financial information of Sichuang and the general information set out in appendices to this circular.

By order of the Board
ZHEDA LANDE SCITECH LIMITED*
Chen Ping
Chairman

* *For identification purpose only*

浙江浙大網新蘭德科技股份有限公司
ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8106)

28 September 2007

To the Independent Shareholders

**MAJOR AND CONNECTED TRANSACTION
FOR CORPORATE REORGANISATION INVOLVING
ZHEJIANG SICHUANG INFORMATION TECHNOLOGY CO. LTD.**

Dear Sir or Madam,

We refer to the circular (the "Circular") dated 28 September 2007 of Zheda Lande Scitech Limited, of which this letter forms a part. The terms used in the Circular shall have the same meaning in this letter unless the context otherwise requires.

We have been appointed to form Independent Board Committee to consider the terms of the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder and to advise the Independent Shareholders of the Company whether, in our opinion, such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Commerzbank has been appointed to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of the terms and conditions of the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder.

We wish to draw you attention to the letter from the Board, as set out in pages 9 to 30 of the Circular, and the letter from Commerzbank, as set out on pages 32 to 42 of the Circular, both of which provide details of the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder. Having considered the advice given by Commerzbank and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, and that the terms and conditions thereof are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Zhang De Xin	**Mr. Cai Xiao Fu**	**Mr. Gu Yu Lin**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

The following is the full text of the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement, the Sichuang Structure Contracts and the transactions contemplated thereunder for the purpose of inclusion in this circular.

德 國 商 業 銀 行

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28 September 2007

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement and the Sichuang Structure Contracts comprising the Sichuang Framework Contract, the Sichuang Pledge Contract, the Sichuang Exclusive Right to Purchase Contract, the Sichuang Exclusive Business Co-operation Contract and the Powers of Attorney as supplemented by the Supplemental Sichuang Structure Contracts (together, the "Reorganisation Contracts") for the purpose of disposing the Group's equity interest in Sichuang to Mr. Chen (the "Reorganisation"). Details of the Reorganisation are set out in the letter from the Board as contained in the circular dated 28 September 2007 (the "Circular") of which this letter forms a part. Terms defined in the Circular have the same meanings when used in this letter unless the context requires otherwise.

On 11 December 2006, the Board announced that the Company had, through Sichuang, a 90% owned subsidiary of the Company, undergone the Reorganisation which involved, among other things, the entering into the Reorganisation Contracts between the Group and Mr. Chen. By virtue of Mr. Chen being an executive Director and a substantial Shareholder holding 10.72% interests in the issued share capital of the Company, Mr. Chen is a connected person under Chapter 20 of the GEM Listing Rules. As the transactions contemplated under the Reorganisation Contracts exceed 25% but below 75% of the relevant ratios (as defined under the GEM Listing Rules), the transactions contemplated under the Reorganisation Contracts constitute major and connected transactions under the GEM Listing Rules, and are therefore subject to the Independent Shareholders' approval at the EGM by way of a poll. Mr. Chen, together with his associates, are required to abstain from voting at the EGM in respect of the Reorganisation Contracts.

INDEPENDENT BOARD COMMITTEE

The Board currently comprises 8 Directors, with Mr. Chen Ping, Mr. Shi Lie, Mr. Chao Hong Bo, Ms. Pan Lichun and Mr. Hu Yang Jun as the executive Directors, Mr. Zhang De Xin, Mr. Cai Xiao Fu and Mr. Gu Yu Lin as the independent non-executive Directors. An Independent Board Committee comprising all independent non-executive Directors has been formed for the purpose of making recommendation to the Independent Shareholders as to how they should vote in respect of the Reorganisation. We, Commerzbank AG Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Reorganisation Contracts as to whether they are fair and reasonable and on normal commercial terms, and whether the Reorganisation is in the interests of the Company and the Shareholders as a whole.

BASIS AND ASSUMPTION

In formulating our advice, we have relied on the information and facts supplied to us by the Company. We have assumed that all information, facts, opinions and representations contained or referred to in the Circular are true, complete and accurate and we have relied on the same. Also, we have relied on the representations of the Company that having made all due enquiries and careful decisions, and to the best of their knowledge and belief, there are no other facts or representations, the omission of which would make any statement contained in the Circular, including this letter, misleading. In addition, we have also reviewed, inter alia, the Reorganisation Contracts, the relevant financial information of the Company and Sichuang, including the published annual reports and interim reports of the Company and the audited financial statements of Sichuang for each of the three years ended 31 December 2004 ,2005 and 2006. We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made at the Latest Practicable Date.

We consider that we have (i) taken reasonable steps as required under Rule 17.92 of the GEM Listing Rules in obtaining all necessary information from the Company; and (ii) reviewed sufficient information to enable us to reach an informed view regarding the terms of the Reorganisation Contracts and to provide us with a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the overall fairness and reasonableness and formulating our opinion in relation to the terms of the Reorganisation Contracts, and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Background of the Company

The Company is principally engaged in the business of technology development and services, computer software development, Internet engineering and sale of self manufactured products. Its revenue is mainly derived from the (i) provision of telecommunication solutions for data communication and telecom operations, (ii) trading of computer hardware and software and (iii) provision of other telecommunication value-added services. We set out below the segmental operating results for the Company as extracted from the Company's annual and interim reports for the three years ended 31 December 2004, 2005 and 2006, and each of the six-month periods ended 30 June 2006 and 2007, respectively:

	For the year ended 31 December			For the six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Turnover					
– Provision of telecommunication solutions	71,272	36,185	20,118	10,500	16,330
– Trading of computer hardware and software	97,289	59,925	91,694	20,322	27,254
– Other telecommunication value-added services	17,078	22,098	51,940	15,500	21,920
Total	185,639	118,208	163,752	46,322	65,504
Segment operating profit/(loss)					
– Provision of telecommunication solutions	23,969	3,499	11,019	2,800	3,860
– Trading of computer hardware and software	15,199	(5,967)	(1,132)	2,149	2,306
– Other related telecommunication value-added services	6,887	11,942	19,262	9,180	8,167
Total	46,055	9,474	29,149	14,129	14,333

(i) Provision of telecommunication solutions

The telecommunication solutions developed by the Group focus on data communication and telecommunication operations, and have been widely used by major telecommunication operators in the PRC, such as China Unicom Limited, China Mobile Limited, China Telecom Corporation Limited and China Netcom Group Corporation in China.

(ii) Trading of computer hardware and software

The Group's computer hardware and software trading business principally involves the sale of networking equipment and the relevant software to mainly telecommunication operators in the PRC.

(iii) Provision of telecommunication value-added services

This business segment involves the development of other telecommunication related value-added services such as short message services ("SMS"), voice message, secretarial station and wireless application protocol.

2. Background of Sichuang

Sichuang is a company incorporated in the PRC in September 2002 and is principally engaged in the trading of computer hardware and software, provision of Internet solutions and development of related products as well as provision of related technical support services. Sichuang is a non wholly-owned subsidiary of the Company and has a registered capital amounts to RMB30 million (equivalent to approximately HK$29.73 million), 90% of which was originally contributed by the Company, i.e. RMB27 million (equivalent to approximately HK$26.73 million). We set out below key financial information of Sichuang, prepared in accordance with International Accounting Standards, for the three years ended 31 December 2004, 2005 and 2006, and each of the six-month periods ended 30 June 2006 and 2007, respectively:

	For the year ended 31 December			**For the six months ended 30 June**	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Turnover	446.8	5,784.6	3,002.6	1,078.9	2,704.8
Profit/(Loss) after taxation	(888.8)	(1,122.7)	(4,660.7)	561.0	3,021.5

3. The Reorganisation Contracts

3.1 Background

The Group's entering into the Reorganisation Contracts was for the purpose of carrying on the Value-Added Business in the PRC through Sichuang and the Group's compliance with the PRC's regulatory requirement in restricting foreign ownership in the Value-Added Business. The Reorganisation Contracts, which comprise the Share Transfer Agreement and the Sichuang Structure Contracts, taken as a whole, involves the disposal of the Group's equity interests in Sichuang to Mr. Chen, which at the same time, allows the economic benefit of Sichuang to flow to the Group with the financial results and position of Sichuang being able to be consolidated into the Company's consolidated financial statements.

The Reorganisation Contracts and the transactions contemplated therein are conditional upon the approval of the Independent Shareholders at the EGM by way of a poll.

3.2 Major Terms of the Reorganisation Contracts

The Reorganisation Contracts comprise the Share Transfer Agreement and the Sichuang Structure Contracts, with the Sichuang Structure Contracts comprising the Sichuang Framework Contract, the Sichuang Pledge Contract, the Sichuang Exclusive Right to Purchase Contract, the Sichuang Exclusive Business Co-operation Contract and the Sichuang Powers of Attorney as supplemented by the Supplemental Sichuang Structure Contracts. Salient terms of each of the Reorganisation Contracts are set out as below:

(i) Share Transfer Agreement

The Share Transfer Agreement was entered into between the Company and Mr. Chen, pursuant to which, the Company shall transfer its 90% equity interest in Sichuang to Mr. Chen at the Sichuang Disposal Consideration of RMB27 million (equivalent to approximately HK$26.73 million) to be satisfied by Mr. Chen's issue of the Sichuang Promissory Note to the Company. The Sichuang Disposal Consideration is arrived at with reference to the audited net asset value of Sichuang for the year ended 31 December 2005 of approximately RMB35.95 million (approximately HK$35.91 million), prepared under the accounting principles generally accepted in the PRC, which is equivalent to the original capital contribution by the Company into Sichuang of RMB27 million.

(ii) Sichuang Framework Contract

The Sichuang Framework Contract was entered into among the Company, Sichuang, Mr. Chen and Mr. Zhou, pursuant to which, the relevant parties have agreed to sign each of the Sichuang Exclusive Right to Purchase Contract, the Sichuang Pledge Contract, the Sichuang Exclusive Business Co-operation Contract and the Sichuang Powers of Attorney (where applicable). The Sichuang Framework Contract also provides certain representations and warranties pertinent to the implementation of the Sichuang Structure Contracts and the future co-operation between the Company and Sichuang.

(iii) Sichuang Exclusive Right to Purchase Contract

The Sichuang Exclusive Right to Purchase Contract was entered into among the Company, Sichuang, Mr. Chen and Mr. Zhou, pursuant to which, the Company is granted with the right to acquire 90% equity interest in Sichuang at the Sichuang Acquisition Consideration which will be set off against the Sichuang Disposal Consideration of the same amount by way of cancelling the Sichuang Promissory Note. Such right to purchase can be exercised by the Company at any time conditional upon the lifting of the restrictions under the relevant PRC laws, rules and regulations on foreign ownership in the PRC enterprises engaged in the Value-Added Business. The Sichuang Acquisition Consideration, being the same as the Sichuang Disposal Consideration, is arrived at with reference to the audited net asset value of Sichuang for the year ended 31 December 2005 of approximately RMB35.95 million, prepared under the accounting principles generally accepted in the PRC, and the original capital contribution by the Company in Sichuang of RMB27.00 million.

(iv) Sichuang Powers of Attorney

Pursuant to the Sichuang Powers of Attorney, Mr. Chen will appoint the Company as his only and lawful attorney in his name and on his behalf to do or execute all or any of the following:

- to attend the shareholders' meetings of Sichuang;

- to exercise his voting rights in the shareholders' meetings of Sichuang;

- to act as his authorised representative in the shareholders' meetings of Sichuang and appoint the legal representative (chairman of the board of directors), directors, supervisors, general manager and other senior managerial staff of Sichuang; and

- to sign the underlying Sichuang Transfer Agreement as contemplated in the Sichuang Exclusive Right to Purchase Contract.

The Directors believe that under the Sichuang Powers of Attorney, the Company's effective controls over Sichuang's management can be ensured.

(v) Sichuang Exclusive Business Co-operation Contract

The Sichuang Exclusive Business Co-operation Contract was entered into between Sichuang and the Company, pursuant to which, the Company will provide to Sichuang extensive technology support and consultation services. As consideration, Sichuang will pay to the Company the Sichuang Service Fees, the amount of which will be determined and calculated on the basis of 90% of the cash revenues generated by Sichuang and its subsidiaries from their operations after deducting the forecasted requirements, subject to the Company's approval, for working capital, capital expenditure and other short-term anticipated expenditure. The Sichuang Service Fees shall be paid to the Company on a quarterly basis and the Company is entitled renew it unilaterally for every period of 3 years upon expiry of its initial term of 3 years. As such, the economic benefit of Sichuang will continuously flow to the Company after completion of the Reorganisation.

(vi) Sichuang Pledge Contract

The Sichuang Pledge Contract was entered into between the Company, Sichuang and Mr. Chen, pursuant to which, Mr. Chen will grant to the Company the Sichuang Pledged Securities, which is a continuing first priority security interest over his 90% interests in the issued share capital of Sichuang. The Company shall be entitled to the first priority to be reimbursed from the proceeds arising out of auction or sale of the Sichuang Pledged Securities for the outstanding Sichuang Service Fees or any damages arising from the occurrence of the specified events, including, among others, any non-payment in full by Sichuang of the Sichuang Service Fees or breach of other obligations under the Sichuang Pledge Contract or any breach by Mr. Chen of terms under the Sichuang Pledge Contract.

4. Reasons for the Reorganisation

(i) Decline in the results of the Company's traditional telecommunication business

Historically, revenue derived from both the provision of telecommunication solution and trading of computer hardware and software are the Group's major sources of income and contributed over 80% of the Group's total turnover for each of the two years ended 31 December 2004 and 2005. However, due to the intensified competition in the telecommunication solutions market, revenue generated from the Group's telecommunication solutions businesses has significantly declined. Revenue derived from the telecommunication solutions was approximately RMB71.27 million, RMB36.19 million and RMB20.12 million for the years ended 31 December 2004, 2005 and 2006 respectively, representing a year-on-year decline of 49.22% and 44.40% from 2004 to 2005 and from 2005 to 2006 respectively.

In view of the decline in the Group's business in the provision of telecommunication solutions and the growing demand for the Value-Added Business in the PRC, the Group has devoted resources in diversifying its principal business activities from traditional application services to various telecommunication value-added services (as permitted under the current PRC's regulations) in the PRC's telecommunication industry and had tapped through entering into certain structural contracts. As a result, revenue derived from the related telecommunication value-added services has recorded steady growth from approximately RMB17.08 million to RMB22.10 million to RMB51.94 million for the years ended 31 December 2004, 2005 and 2006, respectively. Operating profit for this business segment has also recorded a significant increase from approximately RMB6.89 million to RMB11.94 million to RMB19.26 for the corresponding periods.

The Directors believed that the successful implementation of the Sichuang Corporate Reorganisation will allow the Group to further expand the Value-added Business in the PRC which will in turn broaden the Group's income source and thus benefit its financial performance in the future.

(ii) PRC's restriction on the Value-Added Business

Pursuant to the Regulations Concerning Management of Foreign-Invested Telecom Enterprises (the "Relevant Telecommunication Rules"), the percentage of foreign ownership in a foreign-invested telecommunication enterprise engaging in the Value-Added Business is not allowed to exceed 50%. If Sichuang were to commence the Value-Added Business in the PRC, the holding of the Company, being a foreign investor, of 90% equity interest in Sichuang will result in violation of the Relevant Telecommunication Rules. With the current business structure under the Reorganisation Contracts, not only the Group will be able to expand its business to the Value-Added Business, but will also allow the Group to enjoy the economic benefit derived from Sichuang's Value-Added Business.

(iii) Overview of the PRC's Value-Added Business Industry

The PRC represents the largest telecommunication market in the world in terms of the number of fixed-line and mobile telephone subscribers. According to the Ministry of Information Industry of the PRC ("MII"), there were approximately 461 million mobile users in the PRC as of 2006, representing an increase of approximately 17.3% when compared with that of approximately 393 million as of 2005. Even though the PRC is the largest mobile phone market in the world, the penetration rate of mobile phone users remained low and was approximately 35.3% as of 2006, indicating that there is still substantial room for growth in the PRC's mobile telecommunication market.

	2002	**2003**	**2004**	**2005**	**2006**	**CAGR (2002-2006)**
Number of users *(million)*	206.6	268.7	334.8	393.4	461.1	22.2%
Penetration rate *(%)*	16.2%	21.2%	25.9%	30.3%	35.3%	21.5%
Number of SMS *(billion)*	Not available	Not available	217.8	304.7	429.7	40.5%

Source: MII

From 2002 to 2006, the PRC's Gross Domestic Products (the "GDP") grew from approximately RMB12.03 trillion to approximately RMB20.94 trillion. Growth in the PRC's economy in recent years has led to significant increased in per capita income level, business activities and consumer wealth, which in turn led to increasing demand for telecommunications services. Total telecommunication spending in the PRC is closely linked to the growth of its overall economy and GDP. This increase in demand is reflected in the significant growth of total usage of fixed-line telephone, mobile telephone, broadband and other Internet-related services, and business and data communication services in the PRC. From 2002 to 2006, total revenues for the PRC's telecommunication industry grew from approximately RMB397 billion to approximately RMB648 billion.

Growth of the economy and total revenue of telecommunication in the PRC

	2002	**2003**	**2004**	**2005**	**2006**	**CAGR (2002-2006)**
GDP *(RMB billion)*	12,033	13,582	15,988	18,387	20,941	14.9%
GDP per capita income *(RMB)*	9,398	10,542	12,336	14,040	15,931	14.1%
Total revenue for telecommunication *(RMB billion)*	397	461	519	580	648	13.0%

Sources: MII and the National Bureau of Statistics of China

We have also reviewed an independent research and note that the expected percentage increase of mobile value-added services ("MVAS") users will continue to experience a double-digit growth rate the next two years.

(iv) Consolidated financial position of the Company after completion of the Reorganisation

As confirmed by the auditors of the Company, upon execution of the Reorganisation Contracts, the financial results of Sichuang would be consolidated into the Company's consolidated financial statements due to the company's control over Sichuang through the arrangement contemplated under the Reorganisation Contracts. In addition, the PRC legal advisors to the Company have also confirmed that such arrangement under the Reorganisation Contracts are valid, legally binding and enforceable under the PRC laws and does not contravene any laws, rules or regulations of the PRC.

5. The Sichuang Disposal Consideration

The Sichuang Disposal Consideration will be satisfied by the issue of the Sichuang Promissory Note. Pursuant to the Sichuang Corporate Reorganisation, the Sichuang Promissory Note will be cancelled upon the exercise of the Company's right in the Sichuang Exclusive Right to Purchase Contract, which is subject to the lifting of the restrictions under the relevant PRC law, rules and regulations against foreign investment in PRC enterprises engaged in Value-Added Business. As such, the Sichuang Disposal Consideration of RMB27 million merely represents a nominal consideration for purpose of executing the Sichuang Corporate Reorganisation so that the Company could have the chance to acquire its original stake in Sichuang at the time when the Company is permitted to engage in the Value-added Business in the PRC. Given that the Sichuang Disposal Consideration is the same as the Company's initial contribution to Sichuang's registered capital, we consider that the Sichuang Disposal Consideration is fair and reasonable.

6. Financial effects of the Sichuang Corporate Reorganisation

The auditors of the Company have confirmed that no monetary gain or loss will be incurred by the Company under the Reorganisation and that there will not be any material impact on the consolidated financial statements of the Company. Sichuang, in substance, is considered as a subsidiary of the Company before and after the Reorganisation. Accordingly, the net assets and net profits of Sichuang are continued to be consolidated into the consolidated financial statement of the Group on a consistent basis.

DISCUSSION AND ANALYSIS

In view of the intensified competition in the traditional telecommunication solution market in the PRC which has led to the substantial decline in the Company's financial performance in recent years, the Company intends to expand its business scope to capture the growth opportunity in the Value-added Business. Under the current regulatory requirements in the PRC, the Company, being a foreign invested enterprise, will be restricted from engaging in the Value-added Business directly. The Reorganisation Contracts will provide the Company with access to the growing Value-added Business in the PRC and allow the Company to enjoy the economic benefit derived from the Value-added Business. As the Sichuang Disposal Consideration is a nominal consideration for purpose of executing the Reorganisation, the financial impact on the Company as a result of the Reorganisation will be minimal. Since future financial results of Sichuang will be consolidated into the Group's consolidated financial statements under the Reorganisation Contracts, the Reorganisation will broaden the Group's revenue base, thus making positive contribution to the Group's future financial performance.

Potential liquidation risk of Sichuang

In case of liquidation of Sichuang, the beneficial owners for the distribution of the assets in Sichuang shall be its shareholders whose names are registered with the relevant department of industry and commerce administration. The shareholders of Sichuang will receive the remaining assets in proportion to their shareholdings respectively after liquidation fee, employee wage, social insurance, statutory compensation, taxes payable and corporate liabilities have been paid off. Therefore, if Sichuang liquidates, the Company may not be able to receive any assets from Sichuang or may not be able to take regulatory or enforcement actions against the registered shareholders of Sichuang based on the PRC laws. The potential liquidation of Sichuang may materially affect the Group's business, financial position and results of operations.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the view that the terms of the Reorganisation Contracts are fair and reasonable, and on normal commercial terms in so far as the Independent Shareholders are concerned, and the Reorganisation is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the Reorganisation at the EGM.

Yours faithfully,
For and on behalf of
Commerzbank AG Hong Kong Branch

Kenneth Chan
Head of Corporate Finance – Asia Pacific

Andrew Yu
Corporate Finance – Asia Pacific

1. SUMMARY OF FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31 December 2004, 2005 and 2006, and the audited consolidated balance sheets of the Group as at 31 December 2004, 2005 and 2006 as extracted from the Company's annual reports for each of the three years ended 31 December 2004, 2005 and 2006, in respect of which no qualified opinions have been issued by the Company's auditors.

Audited Consolidated Income Statements

For the years ended 31 December 2004, 2005 and 2006

	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	163,752	118,208	185,639
Cost of sales	(122,070)	(97,241)	(129,517)
Gross profit	41,682	20,967	56,122
Other operating income	12,783	11,156	1,714
Distribution and selling expenses	(12,533)	(11,493)	(10,067)
General and administrative expenses	(61,275)	(45,459)	(27,471)
Finance costs	(4,527)	(4,427)	(4,610)
Share of results of associates	1,783	1,968	(1,558)
(Loss) profit before tax	(22,087)	(27,288)	14,130
Income tax expenses	(3,002)	(400)	(3,609)
(Loss) profit for the year	(25,089)	(27,688)	10,521
Attributable to:			
– Equity holders of the Company	(21,017)	(28,348)	10,296
– Minority interests	(4,072)	660	225
	(25,089)	(27,688)	10,521
(Loss) earning per share			
– Basic *(RMB)*	(0.062)	(0.083)	0.030

Audited Consolidated Balance Sheets

As at 31 December 2004, 2005 and 2006

	2006 *RMB'000*	2005 *RMB'000*	2004 *RMB'000*
Non-current assets			
Property, plant and equipment	13,148	7,519	7,606
Intangible assets	9,136	6,138	11,895
Goodwill	5,485	492	–
Interests in associates	6,313	7,580	6,300
Long-term prepayments	–	1,086	396
Other non-current assets	351	373	–
	34,433	23,188	26,197
Current assets			
Inventories	2,180	2,196	10,062
Contract work in progress	11,253	15,667	14,743
Available-for-sale investments	120	–	–
Trade receivables	44,052	66,171	103,340
Prepayments and other receivables	114,251	90,157	90,617
Amounts due from associates	1,249	1,733	1,527
Pledged bank deposits	12,000	19,848	11,020
Bank balances and cash	19,546	55,955	39,804
	204,651	251,727	271,113
Current liabilities			
Trade and other payables	29,511	55,816	44,672
Receipt in advance from customers	9,200	10,773	10,060
Amount due to a director	3,854	–	13,536
Amounts due to minority shareholders	1,092	–	–
Current tax liabilities	2,674	1,589	3,245
Short-term borrowings	76,800	74,000	66,500
	123,131	142,178	138,013
Net current assets	81,520	109,549	133,100
NET ASSETS	115,953	132,737	159,297
Capital and reserves			
Paid in capital	33,958	33,958	33,958
Reserves	66,206	87,223	115,571
Equity attributable to the equity holders of the Company	100,164	121,181	149,529
Minority interests	15,789	11,556	9,768
TOTAL EQUITY	115,953	132,737	159,297

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited financial statements of the Company for each of the two years ended 31 December 2006, which are extracted from the annual report of the Company for the year ended 31 December 2006.

Consolidated Income Statement
For the year ended 31 December 2006

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

Consolidated Balance Sheet
As at 31 December 2006

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company							
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Retained earnings	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	33,958	71,988	6,009	3,657	33,917	149,529	9,768	159,297
Loss for the year	–	–	–	–	(28,348)	(28,348)	660	(27,688)
Capital contributions from minority shareholders	–	–	–	–	–	–	2,207	2,207
Dividend paid to minority shareholders	–	–	–	–	–	–	(842)	(842)
Release of loss of subsidiaries upon partial disposal of the subsidiaries	–	–	–	–	–	–	(237)	(237)
Appropriation	–	–	901	–	(901)	–	–	–
At 31 December 2005 and 1 January 2006	33,958	71,988	6,910	3,657	4,668	121,181	11,556	132,737
Transfer	–	–	3,657	(3,657)	–	–	–	–
Loss for the year	–	–	–	–	(21,017)	(21,017)	(4,072)	(25,089)
Capital contributions from minority shareholders	–	–	–	–	–	–	8,305	8,305
At 31 December 2006	33,958	71,988	10,567	–	(16,349)	100,164	15,789	115,953

Consolidated Cash Flow Statements
For the year ended 31 December 2006

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

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

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

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS

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

Accounting for financial guarantee contracts

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

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

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

Investments in associates

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

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

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

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

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

Goodwill

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

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Inventories

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

Construction contracts

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

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

Provisions

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

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

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

Financial assets

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

AFS financial assets

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

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Compound instruments

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

Financial guarantee contract liabilities

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other financial liabilities

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

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

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

Retirement benefits

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

Property, plant and equipment

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

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

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

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

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

Provisions

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

Leasing

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

The Group as lessee

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

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

Foreign currencies

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

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

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

- exchange differences which related to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

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

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

Government grants

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

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

Borrowing costs

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Income from provision of telecommunication solutions

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

(ii) Trading of hardware and computer software

Revenue is recognised when the significant risks and rewards of ownership of the goods are transferred to the customers, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(iii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

(iv) Subsidy income

Subsidy income is recognised upon cash receipt.

(v) Dividend income

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

(vi) Commission income

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

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

Impairment loss on loans and receivables

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

Write-down of inventories to net realisable value

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

Impairment on intangible asset

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

5. TURNOVER AND SEGMENT INFORMATION

Turnover comprises income from provision of telecommunication solutions, trading of hardware and computer software and provision of related service, net of value-added tax ("VAT"), business tax, rebates and discounts, during the year, and after eliminating intra-Group transactions.

Segment information

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Primary reporting segment – business segment

The Group comprises the following main business segments:

(i) Provision of telecommunication solutions;

(ii) Trading of hardware and computer software; and

(iii) Provision of telecommunication value-added services.

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

(b) Secondary reporting segment – geographical segment

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

6. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

For the year ended 31 December 2006

	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:				
Mr. Chen Ping	–	83	–	83
Mr. Xue Shi Cheng	–	93	–	93
Mr. Shi Lie	–	20	–	20
Mr. Hu Yang Jun	–	20	–	20
Ms. Pan Lichun	–	20	–	20
Independent non-executive directors:				
Mr. Cai Xiao Fu	–	10	–	10
Mr. Zhang De Xin	–	10	–	10
Mr. Gu Yu Lin	–	10	–	10
Supervisors:				
Mr. Fu Liang Yuan	–	–	–	–
Mr. Huo Zhong Hui	–	3	–	3
Ms. Liu Cui Yu	–	3	–	3
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Total	–	278	–	278

For the year ended 31 December 2005

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

Note (i) Resigned on 22 August 2005.

Note (ii) Resigned on 22 August 2005.

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

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

7. EMPLOYEES' EMOLUMENTS

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

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

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

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

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

8. FINANCE COSTS

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

9. LOSS BEFORE TAX

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

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

Notes:

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

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

10. INCOME TAX EXPENSE

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

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

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

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

11. DIVIDEND

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

12. LOSS PER SHARE

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building *RMB'000*	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Office furniture, fixtures and other equipment *RMB'000*	Total *RMB'000*
COST					
At 1 January 2005	–	3,474	2,574	8,585	14,633
Additions	1,492	–	–	680	2,172
Acquired on acquisition of a subsidiary *(Note 28)*	–	–	58	310	368
Disposed through disposals of certain business *(Note 29)*	–	–	–	(253)	(253)
Disposals	–	–	–	(8)	(8)
At 31 December 2005	1,492	3,474	2,632	9,314	16,912
Additions	–	–	–	6,974	6,974
Acquired on acquisition of a subsidiary *(Note 28)*	–	232	382	2,195	2,809
Disposals	–	–	(58)	(63)	(121)
At 31 December 2006	1,492	3,706	2,956	18,420	26,574
DEPRECIATION					
At 1 January 2005	–	2,575	880	3,572	7,027
Provided for the year	–	421	370	1,609	2,400
Acquired on acquisition of a subsidiary *(Note 28)*	–	–	7	80	87
Eliminated on disposals of certain business *(Note 29)*	–	–	–	(117)	(117)
Eliminated on disposals	–	–	–	(4)	(4)
At 31 December 2005	–	2,996	1,257	5,140	9,393
Provided for the year	66	227	192	3,601	4,086
Eliminated on disposals	–	–	(14)	(39)	(53)
At 31 December 2006	66	3,223	1,435	8,702	13,426
CARRYING VALUES					
At 31 December 2006	1,426	483	1,521	9,718	13,148
At 31 December 2005	1,492	478	1,375	4,174	7,519

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

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

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

14. INTANGIBLE ASSETS

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

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

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

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

15. GOODWILL

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

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

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

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

16. INTERESTS IN ASSOCIATES

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

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

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

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

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

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

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

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

17. INVENTORIES

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

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

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

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

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

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

19. TRADE RECEIVABLES

Trade receivables consisted of:

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

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

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

There were no specific credit terms granted to the customers.

20. PREPAYMENTS AND OTHER RECEIVABLES

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

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

21. PLEDGED BANK DEPOSITS

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

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

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

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

22. TRADE AND OTHER PAYABLES

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

Aging analysis of the trade payables is as follows:

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

23. SHORT-TERM BORROWINGS

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

All bank loans are denominated in RMB.

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

	2006	2005
	RMB'000	*RMB'000*
The bank loans are guaranteed by:		
Chen Ping *(Note a)*	25,000	25,000
Chen Ping and his wife, Yang Jie, jointly	–	13,000
Zhejiang University Innovation Information Holdings Company Limited (浙江浙大網新信息控股有限公司) *(Note b)*	–	33,000
Zheda Insigma Group Co. Ltd. (浙江浙大網新集團有限公司) *(Note c)*	41,000	–
	66,000	71,000

Notes:

(a) A director of the Company.

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

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

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(a) Credit risks

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

(b) Currency risk

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

(c) Interest rate risk

The Group's exposure to interest rate risk is through the impact of rate changes on interest-bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks and pledged bank deposits which are all short-term in nature. Interest-bearing financial liabilities are mainly bank loans with fixed or variable rates and repayable within one year. The management monitors the movement in market interest rates and reviews such impact on the Group with respect to the Group's interest-bearing borrowing on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

(d) Liquidity risk

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

(e) Fair values of financial assets and financial liabilities

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

25. PAID IN CAPITAL

	Number of shares		Amount	
	2006	2005	2006	2005
	'000	*'000*	*RMB'000*	*RMB'000*
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.10 each held by promoters	227,452	227,452	22,745	22,745
Overseas public shares ("H" shares) with par value of RMB0.10 each	112,125	112,125	11,213	11,213
	339,577	339,577	33,958	33,958

26. RESERVES

(a) Basis of appropriations to reserves

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

(b) Statutory surplus reserve

In accordance with the Company Law in the PRC and the Articles of Association of the Company and its subsidiaries, the Company and its subsidiaries are required to appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve.

When the balance of the statutory surplus reserve reaches 50% of the paid-in capital/share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses, if any, or to increase capital after properly approved. However, except for offset prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of paid-in capital/share capital after such usage.

(c) Statutory public welfare reserve

In previous years, in accordance with the Company Law in the PRC and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries are also required to appropriate 5% – 10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare reserve to be utilised for employees' common welfare.

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

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

27. UNPROVIDED DEFERRED TAX

The Group has unused tax losses amounted to approximately RMB49,603,000 (2005: RMB36,667,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. The unrecognised tax losses will expire in five year's time.

28. ACQUISITION OF SUBSIDIARIES

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

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

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

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

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

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

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

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

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

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

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

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

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

29. DISPOSAL OF CERTAIN BUSINESS

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

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

30. MAJOR NON-CASH TRANSACTIONS

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

31. CONTINGENT LIABILITIES

Details of guarantee given by the Group as at 31 December 2006 are set out in Note 33. The Group did not have significant contingent liabilities at 31 December 2005.

32. OPERATING LEASE ARRANGEMENTS

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

The total future minimum lease payments are due as follows:

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

33. RELATED AND CONNECTED PARTY TRANSACTIONS

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

	2006 *RMB'000*	2005 *RMB'000*
Income from provision of telecommunication related services to a related company *(Note)*	1,780	1,984
Guarantee given by Chen Ping in respect of a bank loan granted to the Group *(Note 23)*	25,000	25,000
Guarantee jointly given by Chen Ping and Yang Jie in respect of a bank loan granted to the Group *(Note 23)*	–	13,000
Corporate guarantee given by Zhejiang University Innovation Information Holdings Company Limited in respect of a bank loan granted to the Group *(Note 23)*	–	33,000
Corporate guarantee given by Zheda Insigma Group Co. Ltd. in respect of a bank loangranted to the Group *(Note 23)*	41,000	–

Note:

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

Balances with related parties

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

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

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

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

Compensation of key management personnel

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

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

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

Cross guarantee arrangements

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

Parties involved in such arrangements are summarised as follows:

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

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

34. RETIREMENT BENEFIT SCHEMES

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

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

35. GOVERNMENT GRANTS

Government grants of approximately RMB3,252,000 (2005: RMB2,484,000) have been received in the current year towards certain research and development activities. The amounts have been deducted in reporting research and development costs for the year.

36. SUBSIDIARIES

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

Name	Place of incorporation/ operations	Paid upissued registered share capital	Effective interest held by Company Directly	Effective interest held by Company Indirectly	Principal activities
Chengdu Lande E & I Technology Company Limited 成都蘭德電子信息技術有限公司	PRC	RMB1,000,000	55%	–	Provision of telecommunication related services
Hangzhou Trust Communication Service Company Limited 杭州群思特通信服務有限公司	PRC	RMB1,000,000	55%	–	Provision of telecommunication related services
Zhejiang Lande Xinyi Information Technology Company Limited 浙江蘭德新易信息技術有限公司	PRC	RMB5,000,000	70%	–	Provision of telecommunication solutions and trading of hardware and computer software
Guangzhou Landi Electronics Information Technology Company Limited 廣州市蘭笛電子信息技術有限公司	PRC	RMB1,500,000	67%	–	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Zhejiang Sichuang Information Technology Company Limited 浙江思創信息技術有限公司	PRC	RMB30,000,000	90%	–	Trading of hardware and computer software and provision of telecommunication related services
Hefei Lande Tong Ling Technology Limited 合肥蘭德通靈科技有限公司	PRC	RMB2,000,000	75%	–	Provision of telecommunication related services
Zhejiang Lande Congheng Network Service Company Limited 浙江蘭德縱橫網絡技術有限公司	PRC	RMB5,000,000	60%	–	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Fuzhou Truease Digital Scitech and Technology Company Limited ("Fuzhou Truease") 福州真易數碼科技有限公司	PRC	RMB1,000,000	–	63%	Provision of telecommunication related services

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

All subsidiaries are limited liability companies.

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

37. POST BALANCE SHEET EVENTS

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

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

3. MANAGEMENT DISCUSSION AND ANALYSIS

(a) Review of operating results for the year

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

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

The main reasons for the results for the year are:

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

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

(b) Product and business development

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

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

(c) Employees information

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

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

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

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

The Group did envisage on employee's personal development and provided employees with training courses on quality and skills. By conducting training needs assessment, the Group invited professional consulting firms to design training system and deliver courses. Training plan was given to suit individual staff so as to help each one more compatible with the Company's job requirement and ensure comprehensive development during his career life. The Group could have more better development only if employees were upgraded substantially.

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

4. STATEMENT OF INDEBTEDNESS

Borrowings

As at 31 July 2007, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had total outstanding borrowings of approximately RMB24.21 million, comprising bank loans and other loans of approximately RMB23 million and RMB1.21 million respectively, all falling due within one year. Among the other loans of RMB1.21 million, approximately RMB0.59 million was due to Mr. Chen Ping, Chairman and an executive Director of the Company, approximately RMB0.14 million was due to a minority shareholder of a subsidiary of the Company and RMB0.48 million was due to an independent third party.

Securities

As at 31 July 2007, (i) the Group's bank loans of approximately RMB23 million was guaranteed by Mr. Chen Ping, the Chairman of the Company and an executive Director, and Zheda Insigma Group Co. Ltd., a company under common control of a director of the Company and also a shareholder of a substantial shareholder of the Company, respectively; and (ii) the Group's other loans of approximately RMB1.21 million were unsecured.

Commitments, guarantees and contingent liabilities

As at 31 July 2007, the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately RMB0.47 million.

As at 31 July 2007, the Group had guarantees provided to banks with respect to the loan facilities granted to two related parties of a maximum amount of approximately RMB80 million in aggregate, which had been utilized to the extent of RMB20 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 July 2007, being the latest practicable date for ascertaining certain information relating to this indebtedness statement prior to printing of this circular, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

5. DISCLAIMER

Save as disclosed above, the Group did not have, as at 31 July 2007, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

6. WORKING CAPITAL

Taking into account the present internal resources and the available banking facilities of the Enlarged Group, the Directors are of the opinion that the Enlarged Group has sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular.

7. MATERIAL ADVERSE CHANGES SINCE 31 DECEMBER 2006

The Directors are not aware of any material adverse change in the financial and trading position of the Company since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up.

8. FINANCIAL AND TRADING PROSPECTS OF THE COMPANY

i. Orders and sales contracts in hand

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

ii. Prospects of new business and new products

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

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

28 September 2007

The Directors
Zheda Lande Scitech Limited

Dear Sirs,

We set out below our report on the financial information of Zhejiang Sichuang Information Technology Co. Ltd. (the "Target") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for each of the three years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007 (the "Relevant Periods") for inclusion in the circular (the "Circular") of Zheda Lande Scitech Limited (the "Company") in connection with the Company's corporate reorganisation involving the Target, details of which is set out in the Circular.

The Target was incorporated in the People's Republic of China (the "PRC") on 30 September 2002 with an registered capital of RMB30,000,000.

Particulars of the Target's subsidiary which is directly owned by the Target, as at 30 June 2007 is as follows:

Name	Place and date of incorporation	Registered and paid-up capital	Class of equity interest held	Percentage of equity interest held by the Target	Principal activity
浙江浙大網新思創健康科技有限公司 (Insigma Inhealth Technology Company Limited) ("健康科技")	PRC 23 June 2006	RMB 12,500,000	Contributed capital	60%	Not yet commenced business

Particulars of the Target's subsidiaries held during the Relevant Periods are as follows:

Name	Place and date of incorporation	Registered and paid-up capital	Class of equity interest held	Percentage of registered capital held by the Target	Principal activities
福州真易數碼科技有限公司 (Fuzhou Truease Digital Scitech and Technology Company Limited) ("福州真易") *(note i)*	PRC 12 December 2005	RMB 1,000,000	Contributed capital	70%	Provision of telecommunication value-added services
黑龍江群思特通信科技有限公司 ("黑龍江群思特") *(note ii)*	PRC 5 January 2006	RMB 1,000,000	Contributed capital	90%	Provision of telecommunication value-added services

Notes:

(i) Acquired on 12 December 2005 and disposed of on 30 May 2007.

(ii) Acquired on 5 January 2006 and disposed of on 4 February 2007.

The statutory financial statements of the Target for the three years ended 31 December 2006 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 杭州中誠永健會計師事務所, a Certified Public Accountants registered in the PRC.

The financial statements of 福州真易, 健康科技 and 黑龍江群思特 for the three years ended 31 December 2006 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. No audited financial statements have been issued for 福州真易, 健康科技 and 黑龍江群思特 since their respective establishment as there is no statutory requirement for them to issue audited financial statements.

For the purpose of this report, the directors of the Target have prepared the consolidated financial statements of the Target Group which include the results, cash flows and assets and liabilities of all companies comprising the Target Group for the Relevant Periods or from their respective dates of establishment to 30 June 2007 from the financial statements of those companies comprising the Target Group, and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("Underlying Financial Statements") and the management accounts for the period from 1 January 2006 to 30 June 2006 of the Target Group on the basis set out in note 2 to the financial information below. We have carried out independent audit procedures on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements of the Target Group for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Target Group for the Relevant Periods and the consolidated balance sheets of the Target Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 together with the notes thereto (the "Financial Information") as set out in this report have been prepared from the Underlying Financial Statements without adjustments.

The Underlying Financial Statements are the responsibility of the directors of the Target who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2004, 2005, 2006 and 30 June 2007 and of the results and cash flows of the Target Group for the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

The comparative consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Target Group for the six months ended 30 June 2006, together with the notes thereon (the "30 June 2006 financial information") have been extracted from the Target Group's consolidated financial statements for the same period which was prepared solely for the purpose of this report. We have reviewed the 30 June 2006 financial information in accordance with Statement of Auditing Standards 700 "Engagement to Review Interim Financial Reports" issued by the HKICPA. Our review consisted principally of making enquiries of group management and applying analytical procedures to the 30 June 2006 financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2006 financial information. On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the 30 June 2006 financial information.

I. FINANCIAL INFORMATION

Consolidated Income Statement

	Notes	Year ended 31 December 2004 RMB	Year ended 31 December 2005 RMB	Year ended 31 December 2006 RMB	Six months ended 30 June 2006 RMB (unaudited)	Six months ended 30 June 2007 RMB
Turnover	5	446,828	5,784,574	3,002,641	1,078,934	2,704,846
Cost of sales		(433,935)	(4,907,151)	(2,086,745)	(688,894)	(1,084,337)
Gross profit		12,893	877,423	915,896	390,040	1,620,509
Other revenue		15,055	2,830,023	2,916,602	2,913,213	1,668
Distribution costs		(229,626)	(385,921)	(3,134,947)	(231,115)	(382,807)
Administrative expenses		(246,153)	(3,506,551)	(5,250,442)	(3,568,482)	(3,792,023)
Other operating expenses		(12,118)	–	(27,506)	(15,229)	(4,870)
Finance costs	8	(233,810)	(147,034)	–	–	–
Loss on disposal of subsidiaries	28	–	–	–	–	(458,199)
Loss on disposal of available-for-sale investments		–	–	–	–	(55,960)
Share of losses of associates		(195,079)	120,421	–	–	–
Loss before tax	9	(888,838)	(211,639)	(4,580,397)	(511,573)	(3,071,682)
Taxation	10	–	(911,091)	(80,300)	(49,420)	50,201
Loss for the year/period		(888,838)	(1,122,730)	(4,660,697)	(560,993)	(3,021,481)
Attributable to:						
Equity holders of the Target		(888,838)	(1,108,022)	(2,780,193)	(366,995)	(2,555,201)
Minority interests		–	(14,708)	(1,880,504)	(193,998)	(466,280)
		(888,838)	(1,122,730)	(4,660,697)	(560,993)	(3,021,481)
Dividend	11	–	–	–	–	–

Consolidated Balance Sheet

	Notes	As at 31 December 2004 RMB	2005 RMB	2006 RMB	As at 30 June 2007 RMB
NON-CURRENT ASSETS					
Plant and equipment	13	152,081	468,267	1,697,736	849,059
Intangible assets	14	–	–	2,416,667	1,916,667
Goodwill	15	–	367,887	367,887	–
Interests in associates	16	4,804,921	3,925,342	–	–
		4,957,002	4,761,496	4,482,290	2,765,726
CURRENT ASSETS					
Inventories	17	5,517,556	2,019,692	1,513,229	–
Available-for-sale investments	18	–	–	120,200	–
Trade receivables	19	181,871	1,329,309	1,150,694	1,727,004
Prepayment and other receivables	20	18,651,699	9,251,404	20,162,621	11,259,899
Amount due from holding company	32	–	9,694,496	11,080,273	19,936,780
Amounts due from fellow subsidiaries	32	–	4,250,075	2,268,045	668,045
Pledged bank deposits	21	6,000,000	–	–	–
Tax recoverable		–	–	–	203,646
Bank balances and cash		596,601	295,604	277,966	1,431,438
		30,947,727	26,840,580	36,573,028	35,226,812
CURRENT LIABILITIES					
Trade and other payables	22	1,515,919	527,768	9,994,045	10,026,148
Advances from customers		388,130	172,130	172,430	243,578
Amount due to holding company	32	3,029,197	–	–	–
Amount due to a director	32	–	–	380,000	380,000
Tax payable		–	911,091	81,527	–
		4,933,246	1,610,989	10,628,002	10,649,726
NET CURRENT ASSETS		26,014,481	25,229,591	25,945,026	24,577,086
		30,971,483	29,991,087	30,427,316	27,342,812
CAPITAL AND RESERVES					
Paid-in capital	24	30,000,000	30,000,000	30,000,000	30,000,000
Reserves		971,483	(136,539)	(2,916,732)	(5,471,933)
Equity attributable to equity holders of the Target		30,971,483	29,863,461	27,083,268	24,528,067
Minority interests		–	127,626	3,344,048	2,814,745
Total equity		30,971,483	29,991,087	30,427,316	27,342,812

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Target						
	Paid-up capital	**Statutory surplus reserve**	**Statutory welfare reserve**	**Accumulated profits (losses)**	**Total**	**Minority interests**	**Total equity**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
	(Note 24)	*(Note 25 (b))*	*(Note 25 (c))*				
At 1 January 2004	10,000,000	186,032	93,016	1,581,273	11,860,321	–	11,860,321
Capital injection	20,000,000	–	–	–	20,000,000	–	20,000,000
Loss for the year	–	–	–	(888,838)	(888,838)	–	(888,838)
At 31 December 2004	30,000,000	186,032	93,016	692,435	30,971,483	–	30,971,483
Acquisition of a subsidiary	–	–	–	–	–	142,334	142,334
Loss for the year	–	–	–	(1,108,022)	(1,108,022)	(14,708)	(1,122,730)
At 31 December 2005	30,000,000	186,032	93,016	(415,587)	29,863,461	127,626	29,991,087
Acquisition of subsidiaries	–	–	–	–	–	96,926	96,926
Contributions from minority shareholders	–	–	–	–	–	5,000,000	5,000,000
Transfer	–	93,016	(93,016)	–	–	–	–
Loss for the period	–	–	–	(366,995)	(366,995)	(193,998)	(560,993)
At 30 June 2006	30,000,000	279,048	–	(782,582)	29,496,466	5,030,554	34,527,020
Loss for the period	–	–	–	(2,413,198)	(2,413,198)	(1,686,506)	(4,099,704)
At 31 December 2006	30,000,000	279,048	–	(3,195,780)	27,083,268	3,344,048	30,427,316
Disposal of subsidiaries	–	–	–	–	–	(63,023)	(63,023)
Loss for the period	–	–	–	(2,555,201)	(2,555,201)	(466,280)	(3,021,481)
At 30 June 2007	30,000,000	279,048	–	(5,750,981)	24,528,067	2,814,745	27,342,812

Consolidated Cash Flow Statement

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
OPERATING ACTIVITIES					
Loss before taxation	(888,838)	(211,639)	(4,580,397)	(511,573)	(3,071,682)
Adjustments for:					
Bank interest income	(15,055)	(30,023)	(9,614)	(6,225)	(1,668)
Interest expenses	233,810	147,034	–	–	–
Depreciation	75,627	61,304	242,533	113,097	144,051
Share of results of associates	195,079	(120,421)	–	–	–
Gain on disposal of interest in an associate	–	–	(2,234,658)	(2,234,658)	–
Loss on disposal of subsidiaries	–	–	–	–	458,199
Loss on disposal of available-for-sale investments	–	–	–	–	55,960
Write-down of inventories to net realisable value	–	3,628,990	–	–	–
Allowances on inventories	–	–	–	–	1,438,746
Impairment loss on loans and receivables	–	2,923,438	2,255,799	2,255,799	–
Loss on disposal of plant and equipment	–	–	21,107	1,968	1,150
Impairment loss on plant and equipment	–	–	–	–	583,820
Discount on acquisition of subsidiaries	–	–	(672,331)	(672,331)	–
Amortisation of intangible assets	–	–	583,333	83,333	500,000
Operating cash flows before movements in working capital	(399,377)	6,398,683	(4,394,228)	(970,590)	108,576
Decrease (increase) in inventories	415,814	(131,126)	506,463	103,367	74,483
Decrease (increase) in trade receivables	2,220,080	(1,106,740)	83,301	(62,549)	(639,980)
(Increase) decrease in prepayment and other debtors	(9,201,887)	6,555,064	(12,985,145)	(4,162,474)	8,932,972
Increase in amount due from holding company	–	(12,723,693)	(1,385,777)	(2,447,136)	(8,856,507)
(Increase) decrease in amounts due from fellow subsidiaries	–	(4,250,075)	1,982,030	1,625,000	1,600,000
Increase (decrease) in trade and other payables	1,442,822	(1,189,356)	9,446,990	423,515	207,794
Increase (decrease) in advance from customers	388,130	(216,000)	300	(172,130)	71,148
Increase in amount due to holding company	2,526,000	–	–	–	–
Increase in amount due to a director	–	–	380,000	–	–
Increase in available-for-sale investments	–	–	(120,200)	(120,200)	–
Cash (used in) generated from operations	(2,608,418)	(6,663,243)	(6,486,266)	(5,783,197)	1,498,486
Interest paid	(233,810)	(147,034)	–	–	–
Income tax paid	–	–	(909,864)	(2,096,758)	(234,972)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(2,842,228)	(6,810,277)	(7,396,130)	(7,879,955)	1,263,514

	Notes	Year ended 31 December 2004 RMB	2005 RMB	2006 RMB	Six months ended 30 June 2006 RMB (unaudited)	2007 RMB
INVESTING ACTIVITIES						
Purchase of plant and equipment		–	(96,710)	(857,302)	(27,040)	(8,140)
Proceeds from disposal of plant and equipment		–	–	41,200	200	2,199
Net cash flow from disposal of subsidiaries	*28*	–	–	–	–	(105,809)
Proceeds from available-for-sale investments		–	–	–	–	40
Investment in an associate		(4,000,000)	–	–	–	–
Acquisition of subsidiary, net of cash acquired	*27*	–	(424,033)	24,980	24,980	–
(Increase) decrease in pledged bank deposits		(6,000,000)	6,000,000	–	–	–
Interest received		15,055	30,023	9,614	6,225	1,668
Proceeds from disposal of interest in an associate		–	1,000,000	6,160,000	6,160,000	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(9,984,945)	6,509,280	5,378,492	6,164,365	(110,042)
FINANCING ACTIVITIES						
New bank borrowings raised		–	5,000,000	–	–	–
Repayment of short-bank loan		(10,000,000)	(5,000,000)	–	–	–
Capital contribution from minority shareholders		–	–	2,000,000	2,000,000	–
Proceeds on issue of shares		20,000,000	–	–	–	–
NET CASH FROM FINANCING ACTIVITIES		10,000,000	–	2,000,000	2,000,000	–
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(2,827,173)	(300,997)	(17,638)	284,410	1,153,472
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR/ PERIOD		3,423,774	596,601	295,604	295,604	277,966
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD, represented by bank balances and cash		596,601	295,604	277,966	580,014	1,431,438

Notes to the Financial Information

1. GENERAL INFORMATION

The Target is a company incorporated in the People's Republic of China (the "PRC"). The Target's ultimate holding company is Zheda Lande Scitech Limited, a joint stock limited company which is incorporated in the PRC. The address of the registered office and principal place of business of the Target is at 3rd Floor, No.108, Gu Cui Road, Hangzhou City, the PRC.

The principal activities of the Company and its subsidiaries (the "Target Group") are trading of hardware and computer software and provision of telecommunication value-added services.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Target Group.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Information has been prepared in accordance with all applicable International Accounting Standards and its interpretations promulgated by the IASB.

The Target Group has not early applied the following new and revised standard and interpretations issued by the IASB where were in issue but not yet effective:

IFRIC-INT 11	Group and Treasury Share Transactions[1]
IFRIC-INT 12	Service Concession Arrangements[2]
IFRS-INT 8	Operating segments[3]
IAS 23 (Revised)	Borrowing Costs[3]

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

The directors of the Target anticipate that the adoption of these standards, amendment and interpretations in future periods will have no material impact on how the results of operations and financial position of the Target Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Financial Information have been prepared in accordance with International Financial Reporting Standards and the applicable disclosure required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

Basis of preparation

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

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

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

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

Investments in associates

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

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

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

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

Goodwill

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

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

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

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

Taxation

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

Current tax

Current tax is based on taxable profit for the Relevant Periods. Taxable profit differs from profit as reported in the consolidated income statements 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 Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Inventories

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

Provisions

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

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

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

Financial assets

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognsied in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 23.

Held-to-maturity investments

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

AFS financial assets

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

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Financial liabilities and equity instruments issued by the Target Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- it is a part of an identified portfolio of financial instruments that the Target Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Target Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 23.

Other financial liabilities

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

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

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

Retirement benefits

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

Plant and equipment

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

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

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

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

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

Provisions

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

Leasing

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

The Target Group as lessee

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

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

Foreign currencies

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

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

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

- exchange differences which related to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Government grants

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

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

Borrowing costs

Borrowing costs are charged to the consolidated income statements in the Relevant Periods in which they are incurred.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Trading of hardware and computer software

Revenue is recognised when the significant risks and rewards of ownership of the goods are transferred to the customers, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

(iii) Subsidy income

Subsidy income is recognised upon cash receipt.

(iv) Income from provision of Telecommunication value-added services

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

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

Impairment loss on loans and receivables

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

Write-down of inventories to net realisable value

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

Impairment on intangible asset

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

5. TURNOVER AND SEGMENT INFORMATION

Turnover comprises income from trading of hardware and computer software and provision of telecommunication value-added service, net of value-added tax ("VAT"), business tax, rebates and discounts, during the Relevant Periods, and after eliminating intra-group transactions.

Segment information

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

(a) Primary reporting segment – business segment

The Group comprises the following main business segments:

(i) Trading of hardware and computer software; and

(ii) Provision of telecommunication value-added services.

	Trading of hardware and computer software					Telecommunication value-added services					Consolidated				
	For the year ended			For the six months ended		For the year ended			For the six months ended		For the year ended			For the six months ended	
	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*	*RMB*	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*	*RMB*	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Segment turnover	446,828	926,174	–	–	–	–	4,858,400	3,002,641	1,078,934	2,704,846	446,828	5,784,574	3,002,641	1,078,934	2,704,846
Segment results	(216,733)	(621,733)	–	–	–	–	1,113,235	(2,219,051)	158,925	1,237,702	(216,733)	491,502	(2,219,051)	158,925	1,237,702
Gain on disposal of interests in an associate	–	–	–	–	–	–	–	2,234,658	2,234,658	–	–	–	2,234,658	2,234,658	–
Loss on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(458,199)
Loss on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(55,960)
Unallocated revenue											–	2,800,000	672,330	672,330	–
Bank interest income											15,055	30,023	9,614	6,225	1,668
Unallocated expenses											(258,271)	(3,506,551)	(5,277,948)	(3,583,711)	(3,796,893)
Share of results of associates	(195,079)	–	–	–	–	–	120,421	–	–	–	(195,079)	120,421	–	–	–
Finance costs											(233,810)	(147,034)	–	–	–
Loss before tax											(888,838)	(211,639)	(4,580,397)	(511,573)	(3,071,682)
Income tax (expense) credit											–	(911,091)	(80,300)	(49,420)	50,201
Loss for the year/period											(888,838)	(1,122,730)	(4,660,697)	(560,993)	(3,021,481)

	Trading of hardware and computer software				Telecommunication value-added services				Consolidated			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Segment assets	5,851,508	2,239,299	–	–	–	1,945,856	7,266,413	4,492,730	5,851,508	4,185,155	7,266,413	4,492,730
Interests in associates	4,804,921	–	–		–	3,925,342	–		4,804,921	3,925,342	–	–
Unallocated assets									25,248,300	23,491,579	33,788,905	33,499,808
Total assets									35,904,729	31,602,076	41,055,318	37,992,538
Segment liabilities	388,130	66,689	–	–	–	172,541	223,650	293,581	388,130	239,230	223,650	293,581
Unallocated liabilities									4,545,116	1,371,759	10,404,352	10,356,145
Total liabilities									4,933,246	1,610,989	10,628,002	10,649,726

	Trading of hardware and computer software					Telecommunication value-added services					Consolidated				
	For the year ended			For the six months ended		For the year ended			For the six months ended		For the year ended			For the six months ended	
	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*	*RMB*	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*	*RMB*	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Other segment information:															
Capital expenditures	–	15,977	–	–	–	–	80,733	857,302	27,040	8,140	–	96,710	857,302	27,040	8,140
Depreciation and amorisation	75,627	9,164	–	–	–	–	52,140	825,866	196,430	644,051	75,627	61,304	825,866	196,430	644,051
Impairment on plant and equipment	–	–	–	–	–	–	–	–	–	583,820	–	–	–	–	583,820
Impairment loss on loans and receivables	–	–	–	–	–	–	–	181,871	181,871	324,000	–	–	181,871	181,871	324,000
Unallocated impairment loss on loans and receivables											–	2,923,438	2,073,928	2,073,928	–
Total impairment loss on loans and receivables											–	2,923,438	2,255,799	2,255,799	324,000
Write-down of inventories to net realisable value	–	3,628,990	–	–	–	–	–	–	–	–	–	3,628,990	–	–	–
Allowances on inventories	–	–	–	–	1,438,746	–	–	–	–	–	–	–	–	–	1,438,746
Loss on disposal of plant and equipment	–	–	–	–	–	–	–	21,107	1,968	1,150	–	–	21,107	1,968	1,150

(b) ***Secondary reporting segment – geographical segment***

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

6. DIRECTORS' EMOLUMENTS

The details of directors' remuneration of each of the directors for the years/periods ended 31 December 2004, 2005, 2006, 30 June 2006 and 2007 respectively are set out below:

For the year ended 31 December 2004	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	RMB	*RMB*	*RMB*	*RMB*
Executive directors:				
Chen Ping (陳平)	–	–	–	–
Xu Yue Fei (徐躍飛)	–	–	–	–
Total	–	–	–	–

For the year ended 31 December 2005	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	RMB	*RMB*	*RMB*	*RMB*
Executive directors:				
Chen Ping (陳平)	–	–	–	–
Liu Qiao Ping (劉巧萍) *(Note i)*	–	–	–	–
Xu Yue Fei (徐躍飛)	–	–	–	–
Total	–	–	–	–

For the year ended 31 December 2006	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	RMB	*RMB*	*RMB*	*RMB*
Executive directors:				
Chen Ping (陳平)	–	–	–	–
Liu Qiao Ping (劉巧萍)	–	–	–	–
Zhou Yu Xiang (周玉祥) *(Note iii)*	–	85,000	–	85,000
Xu Yue Fei (徐躍飛) *(Note ii)*	–	–	–	–
Total	–	85,000	–	85,000

For the six months ended 30 June 2006 (unaudited)	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	RMB	*RMB*	*RMB*	*RMB*
Executive directors:				
Chen Ping (陳平)	–	–	–	–
Liu Qiao Ping (劉巧萍)	–	–	–	–
Zhou Yu Xiang (周玉祥) *(Note iii)*	–	42,500	–	42,500
Xu Yue Fei (徐躍飛) *(Note ii)*	–	–	–	–
Total	–	42,500	–	42,500

For the six months ended 30 June 2007	Fees	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	RMB	*RMB*	*RMB*	*RMB*
Executive directors:				
Chen Ping (陳平)	–	–	–	–
Liu Qiao Ping (劉巧萍)	–	–	–	–
Zhou Yu Xiang (周玉祥)	–	–	–	–
Jin Lian Fu (金連甫) *(Note iv)*	–	–	–	–
Wu Li Ping (吳莉萍) *(Note iv)*	–	–	–	–
Total	–	–	–	–

No director waived or agreed to waive any emolument paid by the Target Group to any directors as an incentive payment for joining the Target Group or as compensation for loss of office during the Relevant Periods.

Notes:

(i) Appointed on 1 April 2005

(ii) Resigned on 1 May 2006

(iii) Appointed on 1 May 2006

(iv) Appointed on 5 February 2007

7. EMPLOYEES' EMOLUMENTS

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

During the years ended 31 December 2004 and 2005 and the six months ended 30 June 2007, the five highest paid individual did not include any directors. During the six months ended 30 June 2006 and the year ended 31 December 2006, the five highest paid individuals included 1 director of the Target, whose emoluments have been included in Note 6 above. The emoluments of the remaining individuals during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	
Salaries and other benefits	195,000	230,000	245,900	88,500	66,800
Contributions to retirement benefits scheme	65,000	80,000	84,100	31,280	23,770
	260,000	310,000	330,000	119,780	90,570

The emoluments of each of these individuals were less than HK$1,000,000 during the Relevant Period.

During the Relevant Periods, no emolument has been paid to the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Interest on:					
Bank borrowings wholly repayable within five years	233,810	147,034	–	–	–

9. LOSS BEFORE TAX

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

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Staff costs: (including directors' emoluments)					
Salaries and other benefits	74,000	1,088,921	708,062	392,214	303,102
Contributions to retirement benefits scheme	24,568	132,577	226,055	110,382	142,758
Total staff costs	98,568	1,211,498	934,117	502,596	445,860
Amortisation of intangible assets	–	–	583,333	83,333	500,000
Depreciation of plant and equipment	75,627	61,304	242,533	113,097	144,051
Loss on disposal of plant and equipment	–	–	21,107	1,968	1,150
Impairment loss on loans and receivables	–	2,923,438	2,255,799	2,255,799	324,000
Impairment loss on plant and equipment	–	–	–	–	583,820
Write-down of inventories to net realisable value (included in costs of sales)	–	3,628,990	–	–	–
Allowances on inventories (included in administrative expenses)	–	–	–	–	1,438,746
Research and development costs	–	42,722	3,219,949	152,332	448,994
Operating lease expense for office premises	–	41,012	223,618	215,811	2,500
Cost of inventories recognised as an expense	433,935	4,907,151	–	–	–
Auditors' remuneration	–	–	10,500	6,000	–
Share of tax of associates (included in share of results of associates)	(29,262)	18,063	–	–	–
Bank interest income	(15,055)	(30,023)	(9,614)	(6,225)	(1,668)
Discount on acquisition of subsidiaries	–	–	(672,330)	(672,330)	–
Gain on disposal of interest in an associate	–	–	(2,234,658)	(2,234,658)	–

10. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	
The tax charge (credit) comprises:					
PRC Enterprise Income Taxes ("EIT")					
– current period	–	911,091	80,300	49,420	–
– over provision in prior years	–	–	–	–	(50,201)
	–	911,091	80,300	49,420	(50,201)

The Target and certain of its subsidiaries were subject to EIT at rate of 15% (2006: 15%; 2005: 15%; 2004: 15%) as they were classified as Advanced and New Technology Enterprise. The remaining subsidiaries were taxed at the statutory rate of 33% of their respective assessable income for the Relevant Periods.

The tax charge (credit) for the Relevant Periods can be reconciled to the loss per the consolidated income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
				(unaudited)	
Loss before tax	888,838	211,639	4,580,397	511,573	3,071,682
Tax at the domestic income tax rate of 15%	133,326	31,746	687,060	76,736	460,752
Tax effect of expenses not deductible and income not taxable for tax purposes	–	(1,142,430)	86,030	(14,489)	(215,812)
Tax effect of tax losses and deductible temporary differences not recognized	(133,326)	–	(853,390)	(111,667)	(282,428)
Effect of different tax rates of subsidiaries	–	66,267	–	–	–
Tax effect of tax losses utilized	–	133,326	–	–	37,488
Over provision in prior years	–	–	–	–	50,201
Tax (charge) credit for the year/period	–	(911,091)	(80,300)	(49,420)	50,201

11. DIVIDEND

No dividend was paid or proposed during the Relevant Periods, nor has any dividend been proposed since the respective balance sheet dates.

12. LOSS PER SHARE

Loss per share has not been provided for each of the Relevant Periods as such information is not meaningful for the purpose of this report.

13. PLANT AND EQUIPMENT

	Motor vehicles	Office furniture, fixtures and other equipment	Total
	RMB	*RMB*	*RMB*
COST			
At 1 January and 31 December 2004	–	268,877	268,877
Acquired on acquisition of a subsidiary *(Note 27)*	50,607	230,173	280,780
Additions	–	96,710	96,710
At 31 December 2005 and 1 January 2006	50,607	595,760	646,367
Acquired on acquisition of a subsidiary *(Note 27)*	–	677,007	677,007
Additions	–	857,302	857,302
Disposals	(50,607)	(27,830)	(78,437)
At 31 December 2006 and 1 January 2007	–	2,102,239	2,102,239
Additions	–	8,140	8,140
Disposals	–	(6,010)	(6,010)
Disposal of subsidiaries	–	(1,039,922)	(1,039,922)
At 30 June 2007	–	1,064,447	1,064,447
DEPRECIATION AND IMPAIRMENT			
At 1 January 2004	–	41,169	41,169
Depreciation provided for the year	–	75,627	75,627
At 31 December 2004 and 1 January 2005	–	116,796	116,796
Depreciation provided for the year	872	60,432	61,304
At 31 December 2005 and 1 January 2006	872	177,228	178,100
Depreciation provided for the year	5,510	237,023	242,533
Eliminated on disposals	(6,382)	(9,748)	(16,130)
At 31 December 2006 and 1 January 2007	–	404,503	404,503
Depreciation provided for the period	–	144,051	144,051
Impairment loss recognized	–	583,820	583,820
Eliminated on disposals	–	(2,661)	(2,661)
Eliminated on disposal of subsidiaries	–	(914,325)	(914,325)
At 30 June 2007	–	215,388	215,388
CARRYING VALUES			
At 30 June 2007	–	849,059	849,059
At 31 December 2006	–	1,697,736	1,697,736
At 31 December 2005	49,735	418,532	468,267
At 31 December 2004	–	152,081	152,081

The above plant and equipment are depreciated over their estimated useful lives on a straight-line basis, taking into account their estimated residual values, at the following annual rates:

Motor Vehicles	20%
Office furniture, fixtures and other equipment	20%

14. INTANGIBLE ASSETS

	Computer software *RMB*
COST	
At 1 January 2004, 31 December 2004, 31 December 2005 and 1 January 2006	–
Additions *(Note 29)*	3,000,000
At 31 December 2006, 1 January 2007 and 30 June 2007	3,000,000
AMORTISATION	
At 1 January 2004, 31 December 2004, 31 December 2005 and 1 January 2006	–
Provided for the year	583,333
At 31 December 2006 and 1 January 2007	583,333
Provided for the period	500,000
At 30 June 2007	1,083,333
CARRYING VALUES	
At 30 June 2007	1,916,667
At 31 December 2006	2,416,667
At 31 December 2005	–
At 31 December 2004	–

The intangible assets are amortised on straight-line basis over its estimated useful life of three years.

15. GOODWILL

	RMB
COST	
At 1 January 2004, 31 December 2004 and 1 January 2005	–
Arising on acquisition of a subsidiary *(Note 27)*	367,887
At 31 December 2005 and 31 December 2006 and 1 January 2007	367,887
Eliminated upon disposal of interests in subsidiaries *(Note 28)*	(367,887)
At 30 June 2007	–

For the purpose of impairment testing, goodwill arising from the acquisition of subsidiaries have been allocated to cash generating units (the "CGUs") in the telecommunication value-added services segment. During the two years ended 31 December 2005 and 2006, the management of the Target Group determined that there were no impairment of any of its CGUs containing goodwill.

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

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

The goodwill was eliminated in full upon disposal of interests in subsidiaries during the six months ended 30 June 2007.

16. INTERESTS IN ASSOCIATES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Unlisted investments, at cost	5,000,000	4,000,000	–	–
Share of post-acquisition losses and reserves, net of dividends received	(195,079)	(74,658)	–	–
	4,804,921	3,925,342	–	–

As at 31 December 2004 and 2005, there was approximately RMB2,498,000 goodwill included in the cost of investments in associates which was arising on acquisition of an associate in 2004. The goodwill was eliminated in full upon disposal of interest in the associate during the year ended 31 December 2006.

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

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
At beginning	–	2,498,000	2,498,000	–
Addition	2,498,000	–	–	–
Eliminated upon disposal of interest in an associate	–	–	(2,498,000)	–
At end	2,498,000	2,498,000	–	–

The following entities meet the definition of an associate and have been equity accounted for in the Financial Information during the Relevant Periods:

Name	Place of registration/ operation	Attributable equity interest of the Group	Class of equity interests held	Paid-in capital	Principal activities
Zhejiang Lande Congheng Network Service Company Limited 浙江蘭德縱橫網絡技術有限公司 *(note i)*	PRC	20%	Contributed capital	RMB5,000,000	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
Hangzhou Yintong Digital Communication Technology Company Limited 杭州銀通數碼信息技術有限公司 *(note ii)*	PRC	44%	Contributed capital	RMB3,000,000	Development of computer applications and trading of computer hardware

Notes:

(i) Disposed of during the year ended 31 December 2005

(ii) Disposed of during the year ended 31 December 2006

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

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Total assets	7,977,208	3,952,490	–	–
Total liabilities	247,910	709,324	–	–
Net assets	7,729,298	3,243,166	–	–
Group's share of net assets of associates	2,258,535	1,426,993	–	–
Revenue	7,280,999	2,311,920	–	–
(Loss) profit for the year	(1,421,660)	273,684	–	–
Group's share of results of associates for the year	(195,079)	120,421	–	–

17. INVENTORIES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Computer software and hardware	5,517,556	2,019,692	1,513,229	–

At 31 December 2004, all inventories are stated at cost.

At 31 December 2005 and 2006 and 30 June 2007, all inventories were stated at net realisable value.

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprises:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Unlisted securities:				
– equity securities	–	–	120,200	–
Analysed for reporting purposes as:				
Current assets	–	–	120,200	–

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

The investment has been disposed of during the six months ended 30 June 2007.

19. TRADE RECEIVABLES

Trade receivables consisted of:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Trade receivables	181,871	1,329,309	1,332,565	2,232,875
Less: Accumulated impairment	–	–	(181,871)	(505,871)
	181,871	1,329,309	1,150,694	1,727,004

Aging analysis of the trade receivables net of impairment losses as at 31 December 2004, 2005 and 2006 and 30 June 2007 is as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Less than one year	181,871	1,147,438	826,694	1,727,004
Over one year but less than two years	–	181,871	324,000	–
	181,871	1,329,309	1,150,694	1,727,004

There were no specific credit terms granted to the customers.

20. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Prepayment to suppliers	3,382,439	2,923,439	5,527,990	5,260,546
Advances to employees	–	633,037	5,906,965	2,080,494
Others receivables	15,269,260	8,618,366	13,725,032	8,916,225
	18,651,699	12,174,842	25,159,987	16,257,265
Less: Accumulated impairment	–	(2,923,438)	(4,997,366)	(4,997,366)
	18,651,699	9,251,404	20,162,621	11,259,899

The fair value of the Target Group's prepayments and other receivables at the respective balance sheet dates were approximated to the corresponding carrying amounts due to its short-term maturities.

21. PLEDGED BANK DEPOSITS

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Pledged bank deposits	6,000,000	–	–	–

At 31 December 2004, RMB6,000,000 was pledged to a bank for granting banking facilities to a related company, Hangzhou Yixun Information Technology Company Limited (杭州奕訊信息技術有限公司), in which Mr. Chen Wei, a senior management of the Company, had beneficial interests.

The deposits carry fixed interest rate of 1.71% per annum. The pledged deposits were released upon settlement of relevant bank borrowings or completion of the service.

22. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Trade payables	–	67,099	51,220	50,000
Other payables and accruals	1,515,919	460,669	9,942,825	9,976,148
	1,515,919	527,768	9,994,045	10,026,148

Aging analysis of the trade payables as at 31 December 2004, 2005 and 2006 and 30 June 2007 is as follows:

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	RMB	*RMB*	*RMB*	*RMB*
Less than one year	–	–	51,220	50,000
Over one year but less than two years	–	–	–	–
Over two years but less than three years	–	–	–	–
Over three years	–	67,099	–	–
	–	67,099	51,220	50,000

The fair value of the Target Group's trade and other payables at the respective balance sheet dates were approximated to the corresponding carrying amounts due to its short-term maturities.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(a) Credit risks

The Target Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Target Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Target Group's credit risk is significantly reduced.

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

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

(b) Currency risk

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

(c) Interest rate risk

The Target Group's exposure to interest rate risk is through the impact of rate changes on interest-bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks and pledged bank deposits which are all short-term in nature. Interest-bearing financial liabilities are mainly bank loans with fixed or variable rates and repayable within one year. The management monitors the movement in market interest rates and reviews such impact on the Target Group with respect to the Target Group's interest-bearing borrowing on a continous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Target Group.

(d) Liquidity risk

Internally generated cash flow is the general sources of funds to finance the operations of the Target Group.The Target Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Target Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

(e) Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the consolidated balance sheet approximate their carrying amounts due to their immediate or short-term maturities.

(f) Capital risk management

The Target Group manages its capital to ensure to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances.

The capital structure of the Target Group consists of bank balances and equity attributable to equity holders of the Target Group, comprising paid-up capital, reserves and accumulated profits.

The Target Group's directors review the capital structure on a semi-annual basis. As a part of this review, the directors consider the cost of capital and the associated risks. Based on recommendations of the directors, the Target Group will balance its overall capital structure through the issue of new debt.

24. PAID-IN CAPITAL

	RMB
Registered and fully paid up:	
At 1 January 2004	10,000,000
Capital injection	20,000,000
At 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007	30,000,000

25. RESERVES

(a) Basis of appropriations to reserves

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

(b) Statutory surplus reserve

In accordance with the Company Law in the PRC and the Articles of Association of the Company and its subsidiaries, the Company and its subsidiaries are required to appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve.

When the balance of the statutory surplus reserve reaches 50% of the paid-in capital, 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 after such usage.

(c) Statutory public welfare reserve

In previous years, in accordance with the Company Law in the PRC and the articles of association of the Company and its subsidiaries, the Company and its subsidiaries are also required to appropriate 5% – 10% of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare reserve to be utilised for employees' common welfare.

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

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

26. UNPROVIDED DEFERRED TAX

At 30 June 2007, the Target Group has unused tax losses and deductible temporary difference amounted to RMB7,322,197 (At 31 December 2006: RMB5,689,261; At 31 December 2005: NIL; At 31 December 2004: RMB888,841) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses and deductible temporary difference as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. The unrecognised tax losses will expire in five year's time from the year the losses are incurred.

27. ACQUISITION OF SUBSIDIARIES

On 12 December 2005, the Target acquired 70% of the paid-in capital of 福州真易 whose principal activity is the provision of telecommunication value-added services.

On 5 January 2006, the Target acquired 90% of the paid-in capital of 黑龍江群思特 whose principal activity is the provision of telecommunication value-added services.

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

	2005 *RMB*	2006 *RMB*
Net assets acquired		
Plant and equipment	280,780	677,007
Trade receivables	40,698	86,557
Prepayments and other receivables	78,207	–
Bank balances and cash	275,967	224,980
Trade and other payables	(201,205)	(19,287)
	474,447	969,257
Minority interests	(142,334)	(96,926)
	332,113	872,331
Discount on acquisitions of subsidiaries	–	(672,331)
Goodwill *(Note 15)*	367,887	–
Total consideration satisfied by cash	700,000	200,000
Net cash flow arising on acquisition:		
Cash consideration	700,000	200,000
Bank balances and cash acquired	(275,967)	(224,980)
Net outflow/(inflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	424,033	(24,980)

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

福州真易 contributed approximately RMB178,000 to the Target Group's turnover and loss of RMB49,000 to the Target Group's loss for the year ended 31 December 2005 between the date acquisition and the balance sheet date.

黑龍江群思特 contributed approximately RMB545,000 to the Group's turnover and loss of RMB207,000 to the Group's loss for the year ended 31 December 2006 between the date acquisition and the balance sheet date.

If the acquisition of 福州真易 had been completed on 1 January 2005, total turnover of the Target Group for the year ended 31 December 2005 would have been RMB7,139,901, and loss for the year would have been RMB1,314,870.

If the acquisition of 黑龍江群思特 has been completed on 1 January 2006, total turnover of the Target Group and loss for the year would not be significantly affected as the acquisition occurred near the beginning of the year.

28. DISPOSAL OF SUBSIDIARIES

On 30 May 2007 and 4 February 2007, the Target disposed of the entire equity interests held in 福州真易 and 黑龍江群思特 respectively to independent third parties. The net assets of the two subsidiaries at the respectively date of disposal were as follows:

	Six months ended 30 June 2007 Total *RMB*
Net assets disposed of	
Plant and equipment	125,597
Trade receivables	63,670
Prepayments and other receivables	203,950
Bank balances and cash	105,809
Trade and other payables	(175,691)
Minority interests	(63,023)
	260,312
Release of goodwill	367,887
	628,199
Loss on disposal	(458,199)
Total consideration, satisfied by deferred consideration	170,000
Net cash flow arising on disposal	
Cash consideration	–
Bank balances and cash disposed of	(105,809)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(105,809)

During the period ended 30 June 2007, 福州真易 contributed RMB25,217 (Year ended 31 December 2006: loss of RMB297,187) to the Target Group's profit, contributed net operating cash inflow of RMB8,011 (Year ended 31 December 2006: cash outflow of RMB238,426) and RMB2,246 (Year ended 31 December 2006: RMB42,249) cash inflow from investing activities.

During the period ended 30 June 2007, 黑龍江群思特 contributed RMB8,546 (Year ended 31 December 2006: RMB207,004) to the Target Group's loss, contributed net operating cash outflow of RMB109,709 (Year ended 31 December 2006: RMB43,096), and received Nil (31 December 2006: RMB1,038) in respect of investing activities.

29. MAJOR NON-CASH TRANSACTION

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

30. CONTINGENT LIABILITIES

The Target Group did not have significant contingent liabilities at 31 December 2004, 2005 and 2006 and 30 June 2007.

31. OPERATING LEASE ARRANGEMENTS

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

The total future minimum lease payments are due as follows:

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	RMB	*RMB*	*RMB*	*RMB*
Not longer than one year	–	182,994	26,025	7,593
Longer than one year and not longer than five year	–	26,027	–	–
	–	209,021	26,025	7,593

32. RELATED AND CONNECTED PARTY TRANSACTIONS

(a) During the Relevant Periods, the Target Group entered into the following transactions with related and connected parties:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Income from provision of telecommunication related services to a related company	1,274,963	4,960,075	90,000	90,000	–

(b) Compensation of key management personnel

The remuneration of directors, supervisors and other members are stated in Note 6.

(c) The amount due from (to) holding company, fellow subsidiaries and a director were unsecured, interest-free and repayable on demand.

33. RETIREMENT BENEFIT SCHEMES

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

The total cost charged to consolidated income statement of RMB24,568, RMB132,577 and RMB226,055 for the year ended 31 December 2004, 2005 and 2006 respectively and of RMB110,382 and RMB142,758 for the six months ended 30 June 2006 and 2007 respectively, represents contributions payable to the schemes by the Target Group in respect of the current financial period.

34. GOVERNMENT GRANTS

Government grants of approximately RMB60,000, RMB300,000 have been received in the year ended 31 December 2004 and 2005 respectively towards certain research and development activities. The amounts have been deducted in reporting research and development costs for the respective years.

No government grants have been received in the year ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

II POST BALANCE SHEET EVENTS

No significant events took place subsequent to 30 June 2007 up to the date of this report.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2007.

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

MANAGEMENT DISCUSSION AND ANALYSIS ON SICHUANG FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2006 AND THE SIX MONTHS ENDED 30 JUNE 2007

Operation review

1. Review of operating results

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the audited turnover of Sichuang was approximately RMB447,000, RMB5,785,000, RMB3,003,000 and RMB2,705,000 respectively.

For the year ended 31 December 2004, the turnover of Sichuang was wholly attributable to the trading of hardware and computer software. For the fiscal year 2005, Sichuang started to explore additional business line of value-added services and achieved a significant growth of turnover of approximately of 1,196.9% when compared with that of 2004. For the fiscal year 2006, as Sichuang ceased the hardware and computer software trading business and also due to strong market competition, the turnover of Sichuang decreased by approximately 48.1% when compared with that of 2005. For the six months ended 30 June 2007, Sichuang continued its advancement in the Value-Added Business and recorded a turnover of approximately RMB2,705,000.

The audited net loss for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 was approximately RMB888,900, RMB1,108,000, RMB2,780,000 and RMB2,555,000 respectively.

During the review period, Sichuang was in its set up stage and was actively exploring new business lines, especially in the area of Value-Added Business. Accordingly, Sichuang incurred extensive set up costs as well as research and development costs during the review period. This coupled with the effect of strong market condition had resulted in the net losses reported for the review period.

There is no arrangement which a shareholder has waived or agreed to waive any dividends in respect of the three years ended 31 December 2006 and the six months ended 30 June 2007.

2. Product development

During the review period, Sichuang made satisfactory growth in the newly cultivated business of telecommunication. Through cooperation with China Telecommunications Corporation (中國電信集團公司), Sichuang, not only provided quality telecommunication service for the enterprises, but also offered them various value-added services, such as advertising, corporate secretarial services and talent recruitment. To date, over 1,000 enterprises have subscribed for those services.

The telecommunication service jointly offered by Sichuang and China Unicom Co. Ltd. (中國聯合通信有限公司) under the existing business co-operation has been in its operation stage, which mainly provides customers with various convenient services, such as room booking, ticket booking, vehicle ordering, meal ordering, medical service ordering and talent recruitments.

Meanwhile, Sichuang undertook a number of sub-contracted operations of China Telecommunications Corporation (中國電信集團公司) and China Unicom Co. Ltd. (中國聯合通信有限公司), which provide opportunities to further enhance the business relationship between Sichuang and those operators.

3. Business development

Having undergone active preparation throughout the review period, Sichuang plans to adjust staffing and departmental facilities to develop the Value-Added Business. Sichuang has confirmed its research and development pipe line and has determined to make the provision of the telecommunication Value-Added Business as its core business. Sichuang will commence on traditional value-added services including colour message, voice message, and secretarial outsourcing service and WAP, etc. At the same time, by mingling with communication and Internet, Sichuang will develop and maket for some new products which accord with market demands. Sichuang is also negotiating with the telecommunication operators about co-operation between relevant parties' business. Sichuang is currently preparing a report of its relevant service standards to the telecommunication operators and will endeavor to obtain the required qualifications so as to commence the business Value-Added Business as soon as possible.

4. Employees information

For the review period, Sichuang had an average number of 90 employees. The staff cost of Sichuang for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 were RMB96,610, RMB92,270, RMB460,710 and RMB699,460, respectively. With respect to meeting the needs of developing its business, Sichuang will attract a group of experienced specialized personnels to join the company, over 95% of which are the professional staff with university qualification and lengthy years of experiences in the industry. Sichuang formulated a good development scheme and incentives system for employees, and provided them with various quality and technical ability trainings. Sichuang has long adhered to the talent-oriented strategy.

Financial review

- Sichuang maintained creditable financial conditions. For the three years ended 31 December 2006 and the six months ended 30 June 2007, Sichuang was mainly financed by its capital, advances by the Company and its directors as well as proceeds generated from its daily operations.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang's cash and bank balances amounted to approximately RMB596,600, RMB295,600, RMB278,000 and RMB1,431,000 respectively.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had no outstanding bank borrowings.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had a total asset value of approximately RMB30,971,000, RMB29,991,000, RMB30,427,000 and RMB27,342,000 respectively.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had current liabilities of approximately RMB4,933,000, RMB1,610,000, RMB10,628,000, and RMB10,649,000 respectively.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had equity attributable to equity holders of approximately RMB30,971,000, RMB29,863,000, RMB27,083,000 and RMB24,528,000 respectively.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had minority interests of approximately nil, RMB127,000, RMB3,344,000, RMB2,814,000 respectively.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had a gearing ratio (i.e. the ratio of liabilities to total assets) of approximately 13.74%, 5.1%, 25.89% and 28.03% respectively.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had a net current asset ratio (i.e. the ratio of current liabilities to current assets) of approximately 15.94%, 6.00%, 29.05% and 30.23% respectively.

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

- During the report period, Sichuang had not made any material investments.

- In 2005 and 2006, Sichuang acquired 70% of the paid-in capital of 福州真易 and 90% of the paid-in capital of 黑龍江群思特, respectively. Both 福州真易 and 黑龍江群思特 were engaged in the provision of telecommunication value-added services. To cope with Sichuang's development strategy, Sichuang disposed of its entire interests in 福州真易 and 黑龍江群思特 in May 2007 and incurred an aggregate loss of disposal of subsidiaries of approximately RMB458,200 for the six months ended 30 June 2007.

- In 2004 and 2005, Sichuang acquired 20% of the paid-in capital of Zhejiang Lande Congheng Network Service Company Limited, which was engaged in the provision of telecommunication solutions and other related services, and trading of hardware and computer software, and 44% of the paid-in capital of Hangzhou Yintong Digital Communication Technology Company Limited, which was engaged in the development of computer application and trading of computer hardware, respectively. In order to focus on the Value-Added Business, Sichuang disposed of its entire interests in Zhejiang Lande Congheng Network Service Company Limited and Hangzhou Yintong Digital Communication Technology Company Limited in 2005 and 2006, respectively, and incurred a related gain on disposal of associates of approximately RMB2,235,000 in the year ended 31 December 2006.

- As at 31 December 2004, 2005, 2006 and 30 June 2007, Sichuang had no charges on its assets.

- As at the Latest Practicable Date, Sichuang had no material investment or capital assets acquisition plans in the ensuing year.

- Sichuang did not have significant contingent liabilities as at 31 December 2004, 2005 and 2006 and 30 June 2007.

Future prospects

1. Particulars of orders in hand/sales contracts

Sichuang is under discussion for outsourcing services with subsidiaries of China Unicom Co., Ltd., Zhejiang Branch (中國聯合通信有限公司浙江分公司), in addition to those with provincial companies of China Unicom Co., Ltd., Zhejiang Branch (中國聯合通信有限公司浙江分公司), to quicken the pace of promotion of the outsourcing services to the markets of Zhejiang province to full extent and prepare for further marketing of the outsourcing services in other provinces. Such services include supply of management services and a complete human resources management system to outsourcers, including a systematic and standard process of recruitment, employment, deployment, assessment and removal of human resource.

2. Prospects of new business or products

Sichuang will launch new products catering to market demands and carry out trial sales in individual cities. Services will be provided to end consumers and business entities as well, through point of sales machines for special purpose as developed by the Company. Those point of sales machines, cards and backbench system, which record, store and analyse great deal of consumption information, will provide discount services to consumers and information on customers' consumption habits to merchandisers.

The Sichuang Corporate Reorganisation includes disposal of the Group's controlling equity interest in Sichuang and the effecting of a series of contractual arrangements to enable the Group to exercise control over Sichuang, details of which are set out in the Letter from the Board as included in this circular.

Despite of the Sichuang Corporate Reorganisation, the Group is able to keep controlling in both operating and financing activities in Sichuang. Sichuang, in substance, is considered as a subsidiary of the Company before and after the Sichuang Corporate Reorganisation. The net assets and net profits of Sichuang are continued to be consolidated into the consolidated financial statements of the Group on a consistent basis. As the effect of consolidating Sichuang into the Group's consolidated financial statements has already been reflected in the published audited financial statements of the Group for the year ended 31 December 2006, the same of which has also been included in Appendix I to this circular, no pro forma statement of the assets and liabilities of the Enlarged Group is disclosed herein to avoid confusion.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material aspects and not misleading;

(b) there are no other matters the omission of which would make any statement herein misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 and 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 rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares, underlying shares and debentures of the Company

Director	Type of interests	Capacity	Number of Domestic Shares held	Approximate percentage in the entire issued share capital of the Company
Chen Ping	Personal	Beneficial owner	36,392,320	10.72%
Chief Executive Officer				
Liu Qiao Ping	Personal	Beneficial owner	10,235,340	3.01%

Other than as disclosed above, none of the Directors, supervisors and the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and 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 rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, so far as is known to the Directors, supervisors and chief executives of the Company, the persons (other than Directors, supervisors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or who are 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 other member of the Group are as follows:

Long positions in the shares, underlying shares and debentures of the Company

Shareholder	Capacity	Number of shares held	Approximate percentage in the Company's share capital
Substantial shareholders			
Insigma Technology Co. Ltd.	Beneficial owner	81,802,637 Domestic Shares	22.94%
上海長尾投資管理有限公司 (Shanghai Longtail Investment Management Co., Ltd.)	Beneficial owner	34,117,808 Domestic Shares	9.57%
Guoheng Shengxing Media Science Group Company Limited	Beneficial owner	34,117,800 Domestic Shares	9.57%

Other than as disclosed above, the Directors, supervisors and the chief executives of the Company were not aware of any person (other than Directors, supervisors or chief executives of the Company) who had any interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or who were 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 other member of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

5. DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company.

Each of Mr. Chen Ping, Mr. Hu Yang Jun, Mr. Cai Xiao Fu, Mr. Zhang De Xin and Mr. Gu Yu Lin has entered into a service agreement with the Company for three years commencing on 20 September 2004 while each of Ms. Pan Lichun and Mr. Shi Lie has entered into a service contract with the Company effective from 22 August 2005 until the expiry of appointment of the Board at 20 September 2007, and also Mr. Chao Hong Bo has entered into a service contract with the Company effective from 20 July 2007 up to 20 September 2007 at the following remuneration:

Name of Director	Office	Remuneration up to expiry date *(RMB per annum)*
Mr. Chen Ping	Executive Director	83,000
Mr. Shi Lie	Executive Director	20,000
Mr. Chao Hong Bo	Executive Director	20,000
Ms. Pan Lichun	Executive Director	20,000
Mr. Hu Yang Jun	Executive Director	20,000
Mr. Zhang De Xin	Independent Non-executive Director	10,000
Mr. Cai Xiao Fu	Independent Non-executive Director	10,000
Mr. Gu Yu Lin	Independent Non-executive Director	10,000

Such remuneration does not include any bonus and is equivalent to the current remuneration of the Director. Although the bonus to directors depend on the net profit of the Company, there is no method for calculation of the exact amount of such bonus.

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 is terminated in the annual general meeting of the Company without any reason, the relevant Director may not claim for compensation from the Company.

As at the Latest Practicable Date, none of the above service agreements has been terminated.

Save as disclosed above, as at the Latest Practicable Date, there is no other existing service agreement entered into or proposed service agreement to be entered into between any Director and any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. INTERESTS IN ASSETS AND CONTRACTS

Save for the fact that Mr. Chen is to be interested in transactions pursuant to the Share Transfer Agreement and the Sichuang Structure Contracts (subject to the passing of the relevant resolutions), no other Directors have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

Save for the fact that Mr. Chen being interested in the Share Transfer Agreement and the Sichuang Structure Contracts, both of which are amended by the Sichuang Supplemental Agreements, the Directors confirm that there was no contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) had been entered into by the Company or any of its subsidiaries within two years preceding the date of this circular and are or may be material:

(a) The Second Supplemental Share Transfer Agreement dated 22 June 2007.

(b) The Second Supplemental Sichuang Structure Contract dated 22 June 2007.

(c) The Supplemental Share Transfer Agreements dated 1 March 2007.

(d) The Supplemental Sichuang Structure Contract dated 1 March 2007

(e) The Share Transfer Agreement dated 11 December 2006.

(f) The Sichuang Structure Contracts dated 11 December 2006.

(g) The Lan Chuang Structure Contracts dated 11 December 2007.

(h) The cross-guarantee agreement dated 4 July 2006 entered into among the Company, Zheda Insigma Group Co. Ltd., and Zhejiang University Innovation Tuling Information Technology Co. Ltd.

(i) The cross-guarantee agreement dated 4 July 2006 entered into among the Company, Zheda Insigma Group Co. Ltd. ("Insigma Group"), and Zheda Innovation Qware Technology Co. Ltd.

(j) Articles of Association of 浙江浙大網新思創健康科技有限公司 (Insigma Inhealth Technology Co., Ltd.) ("Inhealth") executed by Sichuang and Insigma Group, whereby Sichuang and Insigma Group agreed to contribute RMB7.5 million and RMB5 million to establish Inhealth.

(k) Framework contract dated 14 June 2006 entered into between the Company, 浙江天信科技發展有限公司 (Zhejiang Tianxin Science and Technology Development Company Limited) ("Zhejiang Tianxin"), Ms. Tao Tsaiyun, Mr. Guo Qing, Mr. Wu Weimin, Mr. Yu Keman and Mr. Weng Min (these persons collectively "Tianxin Shareholders"), whereby the parties agreed to sign agreements (i) to (k) below.

(l) Exclusive right to purchase contract dated 14 June 2006 entered into between the Company, Zhejiang Tianxin and Tianxin Shareholders, whereby the Company agreed to pay Ms. Tao Tsaiyun RMB10,000,000 for the right to acquire up to but not exceeding 78% equity interest in Zhejiang Tianxin (or any part thereof) currently owned by Ms. Tao Tsaiyun.

(m) Exclusive business cooperation contract dated 14 June 2006 entered into between the Company and Zhejiang Tianxin, whereby the Company agreed to provide to Zhejiang Tianxin extensive technology support and consultation services, and Zhejiang Tianxin agreed to pay to the Company service fees determined and calculated on the basis of 78% of the cash value generated by Zhejiang Tianxin and its subsidiaries for their operations through various commercial arrangements after taking into account Zhejiang Tianxin's requirement for working capital and capital expenditure.

(n) The pledge contract entered into between the Company, Zhejiang Tianxin and Ms. Tao Tsaiyun dated 14 June 2006, whereby Ms. Tso Tsaiyun granted to the Company a continuing first priority security interest over her interests in the issued share capital of Zhejiang Tianxin to secure the full performance and discharge of the obligations of Zhejiang Tianxin under agreement (j) above.

(o) Two software copyright transfer contracts dated 14 June 2006 entered into between the Company and Zhejiang Tianxin, whereby Zhejiang Tianxin agreed to assign certain copyrights (the "Softwares Copyrights") of specific softwares owed by Zhejiang Tianxin to the Company at a consideration of RMB1 in respect of each assignment.

(p) Software copyright licensing contract dated 14 June 2006 entered into between the Company and Zhejiang Tianxin, whereby the Company agreed to grant Zhejiang Tianxin a licence to use the Software Copyrights for the payment of royalties the amount of which will be included in the service fees to be paid to the Company under agreement (l) above.

Details of agreements (h) and (i) have been disclosed in the Company's announcement and circular dated 5 July 2006 and 17 August 2006. Details of agreement (h) have been disclosed in the Company's announcement and circular dated 2 June 2006 and 23 June 2006 respectively. Details of agreements (k) to (p) have been disclosed in the June Announcement and circular dated 7 July 2006.

9. EXPERT

(a) The following are the qualifications of the experts who have given their opinions or advices for the incorporation in this circular:

Name	**Qualification**
Commerzbank	a licensed bank under the Banking Ordinance (Cap. 155 of the laws of Hong Kong), and an authorised financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO
SHINEWING (HK) CPA Limited ("SHINEWING")	Certified Public Accountants
Zhong Lun Law Firm ("Zhonglun")	PRC Attorneys

(b) Each of Commerzbank, SHINEWING and Zhong Lun has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are respectively included.

(c) As at the Latest Practicable Date, neither Conmmerzbank, SHINEWING nor Zhong Lun has any shareholding in the Company, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Company.

(d) The letter given by Commerzbank is given as of the date this circular for incorporation herein.

(e) As at the Latest Practicable Date, neither Commerzbank, SHINEWING nor Zhong Lun has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

10. GENERAL

(a) The registered office of the Company is located at 4th Floor, 108 Gu Cui Road, Hangzhou City, PRC.

(b) The principal place of business of the Company in Hong Kong is located at Units 1116-1119, Sun Hung Kai Center, 30 Harbour Road, Wanchai, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The qualified accountant and the secretary of the Company is Miss Chan Ching Yi, Yvonne who is an associate member of The Association of Chartered Certified Accountants.

(e) The compliance officer of the Company is Mr. Chao Hong Bo who is also an executive Director. Mr. Chao Hong Bo does not have any professional qualification.

(f) The Company has established an audit committee in November 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The primary duties of the audit committee of the Company are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Directors. The audit committee comprises the three independent non-executive Directors, namely Mr. Zhang De Xin, Mr. Cai Xiao Fu and Mr. Gu Yu Lin whereas Mr. Gu Yu Lin is the chairman.

Mr. Zhang De Xin, 78, 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, 69, 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. During the period August 2002 and December 2006, Mr. Cai was the director of Sino Stride Technology (Holdings) Limited, a company whose shares were listed on the GEM (Stock code: 8177) but was de-listed in November 2006. Mr. Cai joined the Company in October 2001.

Mr. Gu Yu Lin, 37, graduated from the Faculty of Finance and Accounting of Fudan University in June 1997. Mr. Gu is an assistant accountant. Mr. Gu is currently working in the general office of Zhejiang University. He has been the independent supervisor of the Company before and was appointed as an independent non-executive Director since September 2004. Mr. Gu is the chairman of the audit committee of the Company.

Save as disclosed above, each of the audit committee members has not held any directorship in any company listed on the Stock Exchange or other stock exchanges in the past three years.

(g) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the office of Tsun & Partners at Suites 1002-03, Aon China Building, 29 Queen's Road Central, Hong Kong on the date of this circular and up to and including the date which is 14 days from the date of this circular and at the EGM:

(a) the Articles of Association of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" of this Appendix;

(c) the letter from the Independent Board Committee dated 28 September 2007, the text of which is set out on page 31 of this circular;

(d) the letter of advice from Commerzbank dated 28 September 2007, the text of which is set out on pages 32 to 42 of this circular;

(e) the written consent from Commerzbank dated 28 September 2007 referred to in the paragraph headed "Expert" of this Appendix;

(f) the written consent from SHINEWING dated 28 September 2007 referred to in the paragraph headed "Expert" of this Appendix;

(g) the written consent from Zhonglun dated 28 September 2007 referred to in the paragraph headed "Expert" of this Appendix;

(h) the annual reports of the Company for the year ended 31 December 2005 and 2006;

(i) the service contracts referred to in the paragraph headed "Director's Service Contract" of this Appendix;

(j) the circulars of the Company dated 23 March 2006, 23 June 2006, 7 July 2006 and 12 August 2006 respectively;

(k) this circular; and

(l) the Accountants' Report for Sichuang.

浙江浙大網新蘭德科技股份有限公司
ZHEDA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8106)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of the shareholders of Zheda Lande Scitech Limited* (the "Company") will be held at 2:00 p.m. on 23 November 2007 at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(i) (a) the Share Transfer Agreement dated 11 December 2006 (the "Share Transfer Agreement"), as amended by the Supplemental Share Transfer Agreement dated 1 March 2007 and the Second Supplemental Share Transfer Agreement dated 22 June 2007, entered into between the Company and Mr. Chen Ping ("Mr. Chen") in relation to the transfer by the Company to Mr. Chen of its 90% interests in 浙江思創信息技術有限公司 (Zhejiang Sichuang Information Technology Co. Ltd.) ("Sichuang"), copies of the Share Transfer Agreement, the Supplemental Share Transfer Agreement and the Second Supplemental Share Transfer Agreement have been produced to the EGM marked "A" and signed by the chairman of the meeting for the purpose of identification, and all the transactions contemplated under the Share Transfer Agreement be and are hereby approved; and

(b) any of the Director of the Company be and is hereby authorized to implement and take all steps and to do any and all acts and things as may be necessary or desirable to give effect to and/or to complete the Share Transfer Agreement and to sign and execute any other documents or to do any other matters incidental thereto and/or contemplated thereunder.

(ii) (a) the Sichuang Structure Contracts dated 11 December 2006 (the "Sichuang Structure Contracts"), as amended by the Supplemental Sichuang Structure Contracts dated 1 March 2007 and the Second Supplemental Sichuang Structure Contracts dated 22 June 2007, entered into by/between/among the

* *For identification purpose only*

Company and/or Sichuang and/or Mr. Chen Ping and/or Mr. Zhou Yu-xiang, copies of the Sichuang Structure Contracts, the Supplemental Sichuang Structure Contracts and the Second Supplemental Sichuang Structure Contracts have been produced to the EGM marked "B" and signed by the chairman of the meeting for the purpose of identification and all the transactions contemplated under the Sichuang Structure Contracts be and are hereby approved, confirm and ratified; and

(b) any of the Director of the Company be and is hereby authorized to implement and take all steps and to do any and all acts and things as may be necessary or desirable to give effect to and/or to complete the Share Transfer Agreement and the Sichuang Structure Contracts and to sign and execute any other documents or to do any other matters incidental thereto and/or contemplated thereunder"

By Order of the Board
Chen Ping
Chairman

28 September 2007

Notes:

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

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, (i) as regards to the holders of H Shares, shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and (ii) as regards to the holders of Domestic Shares, shall be lodged at the Company's registered office at 4th Floor, 108 Gu Cui Road, Hangzhou City, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding such meeting (or any adjourned meeting thereof).

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

4. The Register of Members will be closed from 24 October 2007 to 23 November 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to attend the above meeting, all transfer documents accompanied by relevant share certificates must be lodged with the Company's H Share Registrar not later than 4:00 p.m. on 23 October 2007 in order to be registered as a member of the Company.

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