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



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)

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
INVOLVING THE TRANSFER OF THE EXCLUSIVE RIGHT TO PURCHASE
EQUITY INTEREST IN ZHEJIANG SICHUANG
AND
MAJOR TRANSACTION AND CONNECTED TRANSACTION
INVOLVING THE DISPOSAL OF 31% EQUITY INTEREST
IN LANDE ZONGHENG
AND
MAJOR TRANSACTION
INVOLVING THE ACQUISITION OF 100% EQUITY INTEREST
IN HANGZHOU HUAGUANG**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



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

* For identification purpose only

30 June 2009

CHARACTERISTICS OF THE GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“51% Acquisition”	the acquisition of 51% equity interest in Hangzhou Huaguang by the Company from Mr. Luo An pursuant to the terms and subject to the conditions set out in the Hangzhou Huaguang (51%) Agreement;
“49% Acquisition”	the acquisition of 49% equity interest in Hangzhou Huaguang by the Company from Ms. Zhang Lianghong pursuant to the terms and subject to the conditions set out in the Hangzhou Huaguang (49%) Agreement;
“Ample Capital”	Ample Capital Limited, a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the entering into of the Rights Transfer Agreement and the SPA (Zongheng);
“Board”	the board of Directors;
“Business”	the value-added telecommunications business in the PRC, including the telecommunications and information services provided by means of public network infrastructure which improves the economic performance and functional value of the network. The value-added telecommunications services that are widely provided in the PRC include electronic mails, video text, electronic data interchange (EDI), fax store and forward, online database search and internet;
“Company”	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 under the laws of the PRC, whose H Shares are listed on the GEM;
“connected person”	connected person of the Company under Chapter 20 of the GEM Listing Rules;
“Director(s)”	the director(s) of the Company;

* For identification purpose only

DEFINITIONS

“Domestic Share(s)”	domestic shares of nominal value RMB0.10 each in the share capital of the Company which are subscribed for in RMB;
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Rights Transfer Agreement, the SPA (Zongheng), the Hangzhou Huaguang (51%) Agreement and the Hangzhou Huaguang (49%) Agreement, and the transactions contemplated thereunder;
“Enlarged Group”	the Group as enlarged by the Hangzhou Huaguang Acquisition;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“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;
“Hangzhou Fanhua”	杭州泛華網絡科技有限公司 (Hangzhou Fanhua Internet Technology Company Limited*), a limited liability company incorporated in the PRC, which is an Independent Third Party of the Company;
“Hangzhou Huaguang”	杭州華光計算機工程有限公司 (Hangzhou Huaguang Computer Engineering Co., Ltd.*), a limited liability company incorporated in the PRC;
“Hangzhou Huaguang (51%) Agreement”	the equity interest transfer agreement dated 15 June 2009 entered into between the Company (as purchaser) and Mr. Luo An (as vendor) in relation to the sale and purchase of 51% equity interest in Hangzhou Huaguang;
“Hangzhou Huaguang (51%) Consideration”	the consideration of RMB5,100,000 (approximately HK\$5,785,000) payable by the Company to Mr. Luo An in respect of the 51% Acquisition;

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DEFINITIONS

“Hangzhou Huaguang (49%) Agreement”	the equity interest transfer agreement dated 15 June 2009 entered into between the Company (as purchaser) and Ms. Zhang Lianghong (as vendor) in relation to the sale and purchase of 49% equity interest in Hangzhou Huaguang;
“Hangzhou Huaguang (49%) Consideration”	the consideration of RMB4,900,000 (approximately HK\$5,558,000) payable by the Company to Ms. Zhang Lianghong in respect of the 49% Acquisition;
“Hangzhou Huaguang Acquisition”	comprise the 51% Acquisition and the 49% Acquisition;
“Hangzhou Songjie”	杭州頌傑信息技術有限公司 (Hangzhou Songjie Information Technology Company Limited*), a limited liability company incorporated in the PRC, which is an Independent Third Party of the Company;
“HK\$”	the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors namely Mr. Cai Xiao Fu, Mr. Zhang De Xin and Mr. Gu Yu Lin;
“Independent Third Party(ies)”	to the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, any person who is not connected to any director, supervisor, chief executive, promoter, substantial shareholder or management shareholder (both as defined in the GEM Listing Rules) of the Company or its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules), nor a connected person (as defined in the GEM Listing Rules);
“Lan Chuang”	浙江蘭創通訊有限公司 (Zhejiang Lan Chuang Information Co. Ltd.), a company incorporated in the PRC with limited liability;
“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;

* For identification purpose only

DEFINITIONS

“Lande Zongheng”	浙江蘭德縱橫網路技術有限公司 (Zhejiang Lande Zongheng Internet Technology Company Limited*), a limited liability company incorporated in the PRC which is a subsidiary of the Company as at the date of this circular;
“Latest Practicable Date”	29 June 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“percentage ratio”	has the meaning ascribed to it under the GEM Listing Rules;
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan;
“PRC GAAP”	accounting principles generally accepted in PRC;
“Rights Transfer Agreement”	the transfer agreement in respect of the right to purchase of 90% equity interest in Zhejiang Sichuang dated 15 June 2009 entered into between the Company and Hangzhou Fanhua, the principal terms of which are set out in this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Shares”	Domestic Shares and H Shares;
“Shareholder(s)”	registered holder(s) of the Shares;
“Sichuang Exclusive Right to Purchase Contract”	the exclusive right to purchase contract among the Company, Zhejiang Sichuang and Zhejiang Sichuang (Shareholders) dated 11 December 2006, the principal terms of which are set out in the announcement of the Company dated 11 December 2006;
“Sichuang Structure Contracts”	a suite of contracts and documents all dated 11 December 2006 entered into by/between/among the Company and/or Zhejiang Sichuang and/or Zhejiang Sichuang (Shareholders) (as the case may be), the principal terms of which are set out in the announcement of the Company dated 11 December 2006;

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DEFINITIONS

“SPA (Zongheng)”	the share purchase agreement entered into between the Company and Hangzhou Songjie in relation to the Zongheng Disposal (31%) on 15 June 2009;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Termination Agreement”	the termination agreement to the Sichuang Structure Contracts dated 15 June 2009 entered into among the Company, Zhejiang Sichuang and Zhejiang Sichuang (Shareholders), the principal terms of which are set out in the announcement of the Company dated 15 June 2009;
“Tianxin Structure Contract”	a suite of contracts and documents all dated 14 June 2006 entered into by/between/among the Company and/or Zhejiang Tianxin and/or the shareholders of Zhejiang Tianxin (as the case may be);
“Zhejiang Tianxin”	浙江天信科技發展有限公司 (Zhejiang Tianxin Science and Technology Development Company Limited), a company incorporated in the PRC with limited liability;
“Zhejiang Sichuang”	浙江思創信息技術有限公司 (Zhejiang Sichuang Information Technology Co., Ltd.*), a limited liability company incorporated in the PRC, which is 90% owned by Mr. Chen Ping and 10% owned by Mr. Zhou Yuxiang as at the date of this circular;
“Zhejiang Sichuang (Shareholders)”	Mr. Chen Ping and Mr. Zhou Yuxiang;
“Zongheng Disposal (31%)”	the disposal of 31% equity interest in Lande Zongheng by the Company to Hangzhou Songjie pursuant to the terms of the SPA (Zongheng);
“Zongheng Disposal (9%)”	the disposal of 9% equity interest in Lande Zongheng by the Company to Mr. Chen Wei on 13 September 2008 at a consideration of RMB700,000; and
“%”	per cent.

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LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Chen Ping (*Chairman*)

Mr. Shi Lie

Mr. Chao Hong Bo

Ms. Geng Hui

Mr. Hu Yang Jun

Mr. Xia Zhen Hai

Head office and registered office:

4th Floor

108 Gu Cui Road

Hangzhou City

PRC

Place of business in Hong Kong:

Units 1116-1119

Sun Hung Kai Center

30 Harbour Road

Wanchai

Hong Kong

Independent non-executive Directors:

Mr. Zhang De Xin

Mr. Cai Xiao Fu

Mr. Gu Yu Lin

30 June 2009

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
INVOLVING THE TRANSFER OF THE EXCLUSIVE RIGHT TO PURCHASE
EQUITY INTEREST IN ZHEJIANG SICHUANG
AND
MAJOR TRANSACTION AND CONNECTED TRANSACTION
INVOLVING THE DISPOSAL OF 31% EQUITY INTEREST
IN LANDE ZONGHENG
AND
MAJOR TRANSACTION
INVOLVING THE ACQUISITION OF 100% EQUITY INTEREST
IN HANGZHOU HUAGUANG**

INTRODUCTION

Reference is made to the announcement of the Company dated 15 June 2009.

* For identification purpose only

LETTER FROM THE BOARD

On 15 June 2009, the Board announced that the Company entered into following agreements with various parties:

- (1) Rights Transfer Agreement;
- (2) SPA (Zongheng); and
- (3) Hangzhou Huaguang (51%) Agreement and Hangzhou Huaguang (49%) Agreement.

The purpose of this circular is to provide you with, among others, (i) further details relating to the Rights Transfer Agreement, SPA (Zongheng), Hangzhou Huaguang (51%) Agreement, Hangzhou Huaguang (49%) Agreement and the transactions contemplated thereunder; (ii) the letter of advice from the Independent Board Committee to the independent Shareholders; (iii) the letter of advice from Ample Capital to the Independent Board Committee and the independent Shareholders; and (iv) the notice of the EGM.

TRANSFER OF THE EXCLUSIVE RIGHT TO PURCHASE EQUITY INTEREST IN ZHEJIANG SICHUANG

Background

Reference is made to the announcement of the Company dated 11 December 2006 in relation to, among other matters, the entering into of the Sichuang Structure Contracts.

Pursuant to the terms of the Sichuang Exclusive Right to Purchase Contract dated 11 December 2006, the Company was granted an exclusive right to purchase up to but not exceeding 90% equity interest in Zhejiang Sichuang 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 Business. Alternatively, the Company may exercise the said exclusive right and designate another party to purchase the 90% equity interest in Zhejiang Sichuang.

Rights Transfer Agreement

A brief summary of the terms of the Rights Transfer Agreement are set out as follows:

Date: 15 June 2009

Parties: The Company
Hangzhou Fanhua

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Hangzhou Fanhua and its ultimate beneficial owners are Independent Third Parties.

LETTER FROM THE BOARD

Major Terms:

Pursuant to the Rights Transfer Agreement, the Company appointed Hangzhou Fanhua as its designee, which shall acquire from Mr. Chen Ping 90% equity interest in Zhejiang Sichuang upon the Company's exercise of the exclusive right to purchase (pursuant to the Sichuang Exclusive Right to Purchase Contract) by serving an exercise notice to Zhejiang Sichuang and Zhejiang Sichuang (Shareholders).

On the same day, (i) the Company served an exercise notice to Zhejiang Sichuang and Zhejiang Sichuang (Shareholders) and confirmations of receipt thereof from all recipients were received; and (ii) Hangzhou Fanhua and Mr. Chen Ping entered into an equity transfer agreement whereby Hangzhou Fanhua agreed to purchase and Mr. Chen Ping agreed to sell 90% equity interest in Zhejiang Sichuang.

As confirmed by the PRC legal advisers of the Company, Hangzhou Fanhua is a domestic enterprise and is therefore not subject to the restriction against foreign investment in PRC enterprises which are engaged in the Business and is able to acquire 90% equity interest in Zhejiang Sichuang.

Consideration:

Hangzhou Fanhua agreed to pay the Company a cash consideration of RMB15,000,000 (approximately HK\$17,015,000) as a result of the Company's disposal of the right to purchase the 90% equity interest in Zhejiang Sichuang within 30 days from the date of the Rights Transfer Agreement.

The consideration of RMB15,000,000 (approximately HK\$17,015,000) was determined after arm's length negotiations with reference to the audited net asset value of Zhejiang Sichuang for the year ended 31 December 2008 prepared under the PRC GAAP of approximately RMB20,896,000 (approximately HK\$23,702,000) and represents a discount of approximately 20.24% of 90% of such net asset value (approximately RMB18,806,000 (approximately HK\$21,332,000)).

Upon completion of the transactions contemplated under the Rights Transfer Agreement, the Company will incur a loss of approximately RMB3,806,000 (approximately HK\$4,317,000) prepared under the PRC GAAP. Such loss is calculated on the basis of the consideration of RMB15,000,000 (approximately HK\$17,015,000) less the Company's 90% interest of the audited net asset value (approximately RMB18,806,000 (approximately HK\$21,332,000)) prepared under the PRC GAAP, of Zhejiang Sichuang as at 31 December 2008.

Condition precedent

The completion of the Rights Transfer Agreement shall be conditional upon the obtaining the requisite approval from the independent Shareholders at the EGM in accordance with the GEM Listing Rules.

LETTER FROM THE BOARD

Use of the proceeds

As confirmed by the Directors, the Company intends to apply the net proceeds of RMB15,000,000 (approximately HK\$17,015,000) derived from the disposal of the right to purchase 90% equity interest in Zhejiang Sichuang for the investment in development of Group's new business and/or for general working capital purposes.

Information about Zhejiang Sichuang

Zhejiang Sichuang is a limited liability company incorporated in the PRC and is principally engaged in the development of the computer software, internet technology and related products, the sales of computer hardware and software, and technical services.

Prior to the completion of the Rights Transfer Agreement, Zhejiang Sichuang was 90% owned by Mr. Chen Ping and 10% by Mr. Zhou Yuxiang.

The Sichuang Structure Contracts provided the Company with effective control over and (to the extent permitted by the relevant PRC laws, rules and regulations) the right to acquire the equity interest of Zhejiang Sichuang. The arrangements under the Sichuang Structure Contracts, taken as a whole, permitted the results and financial position of Zhejiang Sichuang to be consolidated with the Company as if it was a subsidiary of the Company and that the economic benefit of the businesses of Zhejiang Sichuang and its subsidiaries flows to the Company.

Upon completion of the transactions contemplated under the Rights Transfer Agreement, the Company will cease to have control over Zhejiang Sichuang and Zhejiang Sichuang will no longer be deemed to be a subsidiary of the Company and as a result, the results and financial position of Zhejiang Sichuang will no longer be consolidated with that of the Company.

The audited net asset value of Zhejiang Sichuang as at 31 December 2008, prepared under the PRC GAAP, was approximately RMB20,896,000 (approximately HK\$23,702,000).

For the years ended 31 December 2007 and 31 December 2008, the audited net loss (before taxation and extraordinary items) of Zhejiang Sichuang prepared under the PRC GAAP was approximately RMB1,764,000 (approximately HK\$2,001,000) and approximately RMB5,233,000 (approximately HK\$5,936,000), respectively.

For the years ended 31 December 2007 and 31 December 2008, the audited net loss (after taxation and extraordinary items) of Zhejiang Sichuang prepared under the PRC GAAP was approximately RMB1,764,000 (approximately HK\$2,001,000) and approximately RMB5,233,000 (approximately HK\$5,936,000), respectively.

LETTER FROM THE BOARD

Information about Hangzhou Fanhua

Hangzhou Fanhua is a limited liability company incorporated in the PRC and is principally engaged in development of computer software and electronic products technology, technical consultancy, transfer and sales of products, development of computer network technology, and integration of computer network.

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.

Reasons for and benefits of the entering into the Rights Transfer Agreement

Since the incorporation of Zhejiang Sichuang, it has engaged in sales of IBM software, development of game software and traditional value-added businesses such as SMS business. Zhejiang Sichuang's business is still limited to the traditional value-added business (such as taking up secretarial telephone answering services and sales of telephones) while the Group is starting to adjust its own developmental orientation. As such, the business of Zhejiang Sichuang is not in line with the Group's operational objectives (i.e. provision of value-added service to corporate clients).

Zhejiang Sichuang recorded audited loss of approximately RMB1,764,000 and RMB5,233,000 for the years ended 31 December 2007 and 31 December 2008, respectively. Due to the continuous losses incurred by Zhejiang Sichuang, the Board is of the view that disposal of Zhejiang Sichuang shall reduce the financial and operating risks of the Group and is in the interests of the Company and the Shareholders as a whole.

Disadvantages of the transaction contemplated under the Rights Transfer Agreement

The transaction contemplated under the Rights Transfer Agreement has reduced the scale of business and assets of the Group.

As Zhejiang Sichuang is the largest subsidiary of the Company, the Company's disposal of the right to purchase the 90% equity interest in Zhejiang Sichuang has a relatively significant effect on the asset scale of the Group. In addition, Zhejiang Sichuang is a pioneer within the Group in respect of the conversion into value-added businesses, even though the final result was not satisfactory, it has accumulated relatively plentiful operation experience and resources. The possibility that Zhejiang Sichuang may become successful in the future by finding a suitable operational scale with the use of the such resources cannot be ruled out, in this sense, the Group may have lost a good opportunity.

GEM Listing Rules implication

Since the relevant consideration ratio calculated under Rule 19.07 of the GEM Listing Rules is more than 5% but less than 25%, the entering into the Rights Transfer Agreement constitutes a discloseable transaction of the Company under the GEM Listing Rules.

LETTER FROM THE BOARD

In addition, Mr. Zhou Yuxiang, who is currently the substantial shareholder of Zhejiang Sichuang, is a controller as defined under Rule 20.10(3) of the GEM Listing Rules by virtue of his directorship in Zhejiang Sichuang. As such, despite the fact that the Rights Transfer Agreement was entered into between the Company and Hangzhou Fanhua (an Independent Third Party), the entering into the Rights Transfer Agreement also constitutes a connected transaction of the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules, which will be subject to the reporting, announcement and independent shareholders' approval requirements.

Formation of the Independent Board Committee

The Independent Board Committee has been formed to consider the terms of the Rights Transfer Agreement. Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the Rights Transfer Agreement are fair and reasonable and whether the entering into of the Rights Transfer Agreement is in the interests of the Company and the Shareholders as a whole.

EGM

Notice convening the EGM to be held at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC at 2:00 p.m. on 28 August 2009 for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution to approve the entering into of the Rights Transfer Agreement and the transactions contemplated thereunder is set out on pages 131 to 133 of this circular.

According to the GEM Listing Rules, no Shareholder shall abstain from voting in respect of the resolutions in connection with this transaction.

Pursuant to the GEM Listing Rules, the vote of the independent Shareholders taken at the EGM to approve the entering into of the Rights Transfer Agreement and the transactions contemplated thereunder will be taken by poll, the results of which will be announced after the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish.

Further information

Your attention is drawn to (i) the letter from the Independent Board Committee; (ii) the letter from Ample Capital; and (iii) the additional information as set out in the Appendix V to this circular.

LETTER FROM THE BOARD

DISPOSAL OF 31% EQUITY INTEREST IN LANDE ZONGHENG

Background

On 13 September 2008, the Company disposed of 9% equity interest in Lande Zongheng to Mr. Chen Wei for a cash consideration of RMB700,000 (or approximately HK\$794,000). Mr. Chen Wei was a connected person of the Company under the GEM Listing Rules by virtue of being the then substantial shareholder of Lande Zongheng. The Zongheng Disposal (9%) was completed in October 2008. As each of the then applicable percentage ratios in connection with the Zongheng Disposal (9%) was less than 2.5%, the Zongheng Disposal (9%) constituted a connected transaction of the Company under the GEM Listing Rules exempt from the reporting, announcement and independent shareholders' approval requirements.

Upon the completion of the Zongheng Disposal (31%), the Company's equity interest in Lande Zongheng will decrease to 20% and therefore Lande Zongheng will cease to be a subsidiary of the Company. As at the Latest Practicable Date, the Company has no intention to sell the remaining 20% equity interest in Lande Zongheng.

SPA (Zongheng)

A brief summary of the terms of the SPA (Zongheng) are set out as follows:

Date: 15 June 2009

Parties: The Company
Hangzhou Songjie

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Hangzhou Songjie and its ultimate beneficial owners are Independent Third Parties.

Major Terms:

Pursuant to the SPA (Zongheng), the Company agreed to sell and Hangzhou Songjie agreed to purchase 31% equity interest in Lande Zongheng.

The completion of the Zongheng Disposal (31%) shall be conditional upon, amongst others, the following:

- (1) The Company obtaining the requisite approval from the Shareholders in accordance with the GEM Listing Rules;
- (2) Hangzhou Songjie passing resolutions at its board meeting and shareholders' meeting (if required) in accordance with its articles of association; and
- (3) Other existing shareholders of Lande Zongheng consenting to waive their respective pre-emptive rights in connection with the equity interest to be transferred under the SPA (Zongheng).

LETTER FROM THE BOARD

Consideration:

The consideration for the Zongheng Disposal (31%) was RMB2,600,000 (equivalent to approximately HK\$2,949,000) which was determined after arm's length negotiations with reference to the audited net asset value of Lande Zongheng for the year ended 31 December 2008 prepared under the PRC GAAP of approximately RMB7,111,000 (approximately HK\$8,066,000).

The consideration for the Zongheng Disposal (31%) will be paid in cash in two installments as follows:

- (1) The initial installment (RMB1,000,000) will be paid within 15 days upon the signing of the SPA (Zongheng);
- (2) The remaining balance (RMB1,600,000) will be fully paid up after the date when all the registration and other requisite procedures regarding the Zongheng Disposal (31%) with the relevant PRC governmental authorities are completed.

Use of the proceeds

As confirmed by the Directors, the Company intends to apply the net proceeds of RMB2,600,000 (approximately HK\$2,949,000) derived from the Zongheng Disposal (31%) for general working capital purposes.

Information about Lande Zongheng

Lande Zongheng is a limited liability company incorporated in the PRC and is principally engaged in the development and technical services of the computer software, internet technology and its products, integration of computer network, technical services of artificial intelligent building system, integration of cabling, safety supervision and network maintenance, sales of computer hardware and software.

The audited net asset value of Lande Zongheng as at 31 December 2008, prepared under the PRC GAAP, was approximately RMB7,111,000 (approximately HK\$8,066,000).

For the years ended 31 December 2007 and 31 December 2008, the audited net profit (before taxation and extraordinary items) of Lande Zongheng prepared under the PRC GAAP was approximately RMB180,000 (approximately HK\$204,000) and approximately RMB1,601,000 (approximately HK\$1,816,000), respectively.

For the years ended 31 December 2007 and 31 December 2008, the audited net profit (after taxation and extraordinary items) of Lande Zongheng prepared under the PRC GAAP was approximately RMB180,000 (approximately HK\$204,000) and approximately RMB1,544,000 (approximately HK\$1,751,000), respectively.

LETTER FROM THE BOARD

Information about Hangzhou Songjie

Hangzhou Songjie is a limited liability company incorporated in the PRC and is mainly engaged in the development of the technology of the computer hardware and software, technology consultation, and technology services.

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 the sales of self-manufactured products.

Reasons for and benefits of the entering into the SPA (Zongheng)

Since the incorporation of Lande Zongheng, it has engaged in the specialized development and maintenance of information management system for telecommunication operators.

Considering (1) the market uncertainties faced by Lande Zongheng; (2) the increase of Lande Zongheng's operation cost following the market adjustment; and (3) the business of Lande Zongheng is not in line with the Group's core business (i.e. value-added business), the Board is of the view that disposal of Lande Zongheng shall reduce the financial and operating risks of the Group and is in the interests of the Company and the Shareholders as a whole.

Disadvantages of the Zongheng Disposal (31%)

The Zongheng Disposal (31%) has reduced the scale of business and assets of the Group.

In the short run, the Zongheng Disposal (31%) connotes the disposal of a profitable business in return for capital to be invested in value-added businesses in line with the major developmental orientation of the Group, which entails investment risk.

The Zongheng Disposal (31%) also results in the loss of controlling shareholding of the Company in Lande Zongheng, thereby reducing the influence of the Company on Lande Zongheng.

Financial effects of the Zongheng Disposal (31%)

Assets

As confirmed by the Directors, the assets of the Group will decrease by approximately RMB13,616,000 (approximately HK\$15,445,000) prepared under the PRC GAAP.

Liabilities

As confirmed by the Directors, the liabilities of the Group will decrease by approximately RMB6,505,000 (approximately HK\$7,379,000) prepared under the PRC GAAP.

LETTER FROM THE BOARD

Earnings

Upon completion of the Zongheng Disposal (31%), the Company is expected to incur a gain of approximately RMB396,000 (approximately HK\$449,000) prepared under the PRC GAAP. Such gain is calculated on the basis of the consideration of RMB2,600,000 (approximately HK\$2,949,000) less the Company's 31% interest of the audited net asset value (approximately RMB2,204,000 (approximately HK\$2,500,000)) prepared under the PRC GAAP of Lande Zongheng as at 31 December 2008.

Any further impact on the earnings of the Group will depend upon the use of the proceeds of the Zongheng Disposal (31%) that is presently earmarked to be used as general working capital and for the Group's future development.

Working capital

As the Company will apply the net proceeds from the Zongheng Disposal (31%) for general working capital of the Group, the Group's working capital would be enlarged upon completion of Zongheng Disposal (31%).

Net asset value (NAV)

According to the 2008 annual report of the Company, the NAV of the Group was approximately RMB 86,231,000 (approximately HK\$97,812,000) as at 31 December 2008. As confirmed by the Directors, the Group's NAV would be increased by approximately RMB396,000 (approximately HK\$449,000) prepared under the PRC GAAP, representing the gain of the Zongheng Disposal (31%) prepared under the PRC GAAP, upon completion of Zongheng Disposal (31%).

Gearing

According to the 2008 annual report of the Company, the Group's gearing level, which is calculated as liabilities over total assets, was approximately 0.25 times. The Directors confirmed that the Zongheng Disposal (31%) would not have any material impact on the gearing position of the Group.

Financial and trading prospects of the Group

1. Status of orders in hand/sales contracts

The Group's value-added service business has a large customer base and maintains a stable source of customers, the respective business contracts of which will continue to be implemented. For instance, the Group recorded stable revenue in our Telecom Number 114 Bai Shi Tong service. The Group will gradually expand our value-added business into other provinces and develop the client base for the Group's value-added business as planned. For application services, the Group have a stable client base in the three major telecom operators.

LETTER FROM THE BOARD

In particular the restructuring and business adjustment of the three major telecom operators will provide potential substantial demand on software upgrading and development of new software system to allow them to switch to the new environment. Given such existing customers, the Group will enter into contracts in relation to the sourcing, installation and maintenance services for system integration projects and system network equipment.

2. Prospects of new business and new products

Through the use of self-developed in-depth information decoding know-how and by leveraging on its competitive edge in telecommunication and correlation of consumer behaviours, the Company has developed PMS which combines precision advertising, customer leading, customer care and effect assessment all in one. PMS offers services such as related information delivery, industry promotion, customer care and keyword bidding. PMS has received positive customer feedback since preliminary launch thanks to its precision customer positioning, accurate information distribution and powerful data support. It provides a promising market prospect and will become a core product of the Company in future.

The newly-developed Zhanshibao Enterprise TV Station, Enterprise On-line Communication Platform and Portal Enterprise Customer Platform provide enterprises with internet image packaging and channel expansion services and attract potential enterprise customers.

In face of restructuring and business adjustment of telecom operators, the Group's application business has to adapt to such changes in relation to software upgrading and development of new software for the telecom operators.

Due to the restructuring and business adjustment of major telecom operators, the external operating environment of the Group has been changed and the Group's business has been affected accordingly; and the Group's increased investment in research and development is expected to have a positive impact on the Group's results in the future.

GEM Listing Rules implication

Given that both the Zongheng Disposal (9%) and the Zongheng Disposal (31%) involve the disposal of equity interest in Lande Zongheng by the Company and the completion of the Zongheng Disposal (31%) is expected to be less than 12 months after the completion of the Zongheng Disposal (9%), the Zongheng Disposal (31%) will be aggregated with the Zongheng Disposal (9%) pursuant to Rule 19.22 of the GEM Listing Rules.

As the relevant applicable percentage ratio in respect of the Zongheng Disposal (31%), on an aggregated basis, is more than 25% but less than 75%, the entering into of the SPA (Zongheng) constitutes a major transaction of the Company under the GEM Listing Rules.

In addition, Mr. Chen Wei, who is currently the substantial shareholder of Lande Zongheng, is a controller as defined under Rule 20.10(3) of the GEM Listing Rules by virtue of being the director and chief executive in Lande Zongheng (a subsidiary of the Company).

LETTER FROM THE BOARD

As such, the Zongheng Disposal (31%) also constitutes a connected transaction of the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules, which will be subject to the reporting, announcement and independent shareholders' approval requirements.

Formation of the Independent Board Committee

The Independent Board Committee has been formed to consider the terms of the SPA (Zongheng). Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the SPA (Zongheng) are fair and reasonable and whether the Zongheng Disposal (31%) is in the interests of the Company and the Shareholders as a whole.

EGM

Notice convening the EGM to be held at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC at 2:00 p.m. on 28 August 2009 for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution to approve the SPA (Zongheng) and the transactions contemplated thereunder is set out on pages 131 to 133 of this circular.

According to the GEM Listing Rules, no Shareholder shall abstain from voting in respect of the resolutions in connection with this transaction.

Pursuant to the GEM Listing Rules, the vote of the independent Shareholders taken at the EGM to approve the entering into of the SPA (Zongheng) and the transactions contemplated thereunder will be taken by poll, the results of which will be announced after the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish.

Further information

Your attention is drawn to (i) the letter from the Independent Board Committee; (ii) the letter from Ample Capital; and (iii) the additional information as set out in the Appendix V to this circular.

ACQUISITION OF 100% EQUITY INTEREST IN HANGZHOU HUAGUANG

Background

Prior to the completion of the Hangzhou Huaguang Acquisition, Hangzhou Huaguang was 51% owned by Mr. Luo An and 49% owned by Ms. Zhang Lianghong. Upon completion of Hangzhou Huaguang Acquisition, Hangzhou Huaguang will be 100% owned by the Company.

LETTER FROM THE BOARD

(A) Hangzhou Huaguang (51%) Agreement

Date: 15 June 2009

Parties: the Company (as purchaser)
Mr. Luo An (as vendor)

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Luo An is an Independent Third Party.

Asset to be acquired: 51% equity interest in Hangzhou Huaguang

Consideration

The Hangzhou Huaguang (51%) Consideration is RMB5,100,000 (equivalent to approximately HK\$5,785,000), which will be paid by the Company to Mr. Luo An in cash by internal resources in two installments as follows:

- (1) RMB2,000,000 (approximately HK\$2,269,000) of the Hangzhou Huaguang (51%) Consideration will be paid within 15 days after the signing of the Hangzhou Huaguang (51%) Agreement;
- (2) The remaining RMB3,100,000 (approximately HK\$3,516,000) of the Hangzhou Huaguang (51%) Consideration will be paid upon the completion of all the registration and other requisite procedures regarding the 51% Acquisition with the relevant PRC governmental authorities.

The Hangzhou Huaguang (51%) Consideration was determined after arm's length negotiations between both parties with reference to the audited net asset value of Hangzhou Huaguang of approximately RMB10,294,000 (approximately HK\$11,676,000) for the year ended 31 December 2008, prepared under the PRC GAAP and represents a discount of approximately 2.86% of 51% of such net asset value.

Conditions precedent

The completion of the 51% Acquisition shall be conditional upon, amongst others, the obtaining the requisite approval from the independent Shareholders at the EGM in accordance with the GEM Listing Rules.

Completion

Completion of the 51% Acquisition shall take place within 30 days after the fulfillment of all of conditions precedent set out in the Hangzhou Huaguang (51%) Agreement.

LETTER FROM THE BOARD

(B) Hangzhou Huaguang (49%) Agreement

Date: 15 June 2009

Parties: the Company (as purchaser)
Ms. Zhang Lianghong (as vendor)

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Ms. Zhang Lianghong is an Independent Third Party.

Asset to be acquired: 49% equity interest in Hangzhou Huaguang

Consideration

The Hangzhou Huaguang (49%) Consideration is RMB4,900,000 (approximately HK\$5,558,000), which will be paid by the Company to Ms. Zhang Lianghong in cash by internal resources in two installments as follows;

- (1) RMB2,000,000 (approximately HK\$2,269,000) of the Hangzhou Huaguang (49%) Consideration will be paid within 15 days after the signing of the Hangzhou Huaguang (49%) Agreement;
- (2) The remaining RMB2,900,000 (approximately HK\$3,289,000) of the Hangzhou Huaguang (49%) Consideration will be paid upon the completion of all the registration and other requisite procedures regarding the 49% Acquisition with the relevant PRC governmental authorities.

The Hangzhou Huaguang (49%) Consideration was determined after arm's length negotiations between both parties with reference to the audited net asset value of Hangzhou Huaguang of approximately RMB10,294,000 (approximately HK\$11,676,000) for the year ended 31 December 2008, prepared under the PRC GAAP and represents a discount of approximately 2.86% of 49% of such net asset value.

Conditions precedent

The completion of the 49% Acquisition shall be conditional upon amongst others, the obtaining the requisite approval from the independent Shareholders at the EGM in accordance with the GEM Listing Rules.

Completion

Completion of the 49% Acquisition shall take place within 30 days after the fulfillment of all of conditions precedent set out in the Hangzhou Huaguang (49%) Agreement.

LETTER FROM THE BOARD

Information about Hangzhou Huaguang

Hangzhou Huaguang is a limited liability company incorporated in the PRC and is engaged in development of technology, technical services, transfers of products, computer engineering, computer software, computer and peripheral equipment, wholesale and retail, computer and accessories and electronic components.

The audited net asset value of Hangzhou Huagang for the year ended 31 December 2008, prepared under the PRC GAAP, was approximately RMB10,294,000 (equivalent to approximately HK\$11,676,000).

For the years ended 31 December 2007 and 31 December 2008, the audited net profit (before taxation and extraordinary items) of Hangzhou Huagang prepared under the PRC GAAP was approximately RMB400,000 (approximately HK\$454,000) and approximately RMB308,000 (approximately HK\$349,000), respectively.

For the years ended 31 December 2007 and 31 December 2008, the audited net profit (after taxation and extraordinary items) of Hangzhou Huagang prepared under the PRC GAAP was approximately RMB297,000 (approximately HK\$337,000) and approximately RMB275,000 (approximately HK\$312,000), respectively.

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.

Reasons for and benefits of the Hangzhou Huaguang Acquisition

Hangzhou Huaguang is a dealer and agent for numerous brands of computers and telecommunication products, which has a good corporate client base and enjoys relatively good popularity within the industry. Hangzhou Huaguang has gradually changed its business scope in accordance with its own characteristics in the recent two years to provide information technology application services for corporate clients. The orientation of Hangzhou Huaguang's change of its business is in line with the Group's strategic developmental goals. The Board expects that, through the Hangzhou Huaguang Acquisition, the Group's cost of sales and expenses can be greatly reduced, by making use of Hangzhou Huaguang's existing operating systems and channels to integrate with the Group's operating systems in all aspects. Furthermore, the Board also expects to make use of Hangzhou Huaguang's analysis and coordination of enterprises to integrate value-added service products and framework, so as to enhance the promotion of the Group's businesses to enterprises.

LETTER FROM THE BOARD

Financial effects of the Hangzhou Huaguang Acquisition

Effects on assets and liabilities

As at 31 December 2008, the audited consolidated total assets and total liabilities of the Group amounted to approximately RMB131,341,000 (approximately HK\$148,980,000) and RMB32,355,000 (approximately HK\$36,700,000) respectively. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, had the Hangzhou Huaguang Acquisition been completed on 31 December 2008, the unaudited pro forma total assets and total liabilities of the Enlarged Group would increase to approximately RMB148,767,000 (approximately HK\$168,747,000) and approximately RMB48,537,000 (approximately HK\$55,056,000) respectively.

Upon completion of the Hangzhou Huaguang Acquisition, Hangzhou Huaguang will become a wholly-owned subsidiary of the Company. The Group will consolidate the financial results of Hangzhou Huaguang into the Group's financial statements. Based on the information of Hangzhou Huaguang stated in Appendix II of the circular, the audited results of Hangzhou Huaguang prepared in accordance with International Accounting Standards for each of the three years ended 31 December 2008 were loss of approximately RMB1,802,000 (approximately HK\$2,044,000), profit of approximately RMB1,106,000 (approximately HK\$1,255,000) and loss of approximately RMB3,093,000 (approximately HK\$3,508,000), respectively. Given the historical earnings record and positive future prospect of Hangzhou Huaguang (for details, please refer to the section headed "Reasons for and benefits of the Hangzhou Huaguang Acquisition" above and "Management discussion and analysis of Hangzhou Huaguang for the three years ended 31 December 2008" in Appendix IV), the Directors believe that Hangzhou Huaguang will demonstrate positive earnings and generate additional financial contributions to the Group.

Financial and trading prospects of the Group

1. Status of orders in hand/sales contracts

The Group's value-added service business has a large customer base and maintains a stable source of customers, the respective business contracts of which will continue to be implemented. For instance, the Group recorded stable revenue in our Telecom Number 114 Bai Shi Tong service. The Group will gradually expand our value-added business into other provinces and develop the client base for the Group's value-added business as planned. For application services, the Group have a stable client base in the three major telecom operators. In particular the restructuring and business adjustment of the three major telecom operators will provide potential substantial demand on software upgrading and development of new software system to allow them to switch to the new environment. Given such existing customers, the Group will enter into contracts in relation to the sourcing, installation and maintenance services for system integration projects and system network equipment.

LETTER FROM THE BOARD

2. Prospects of new business and new products

Through the use of self-developed in-depth information decoding know-how and by leveraging on its competitive edge in telecommunication and correlation of consumer behaviours, the Company has developed PMS which combines precision advertising, customer leading, customer care and effect assessment all in one. PMS offers services such as related information delivery, industry promotion, customer care and keyword bidding. PMS has received positive customer feedback since preliminary launch thanks to its precision customer positioning, accurate information distribution and powerful data support. It provides a promising market prospect and will become a core product of the Company in future.

The newly-developed Zhanshibao Enterprise TV Station, Enterprise On-line Communication Platform and Portal Enterprise Customer Platform provide enterprises with internet image packaging and channel expansion services and attract potential enterprise customers.

In face of restructuring and business adjustment of telecom operators, the Group's application business has to adapt to such changes in relation to software upgrading and development of new software for the telecom operators.

Due to the restructuring and business adjustment of major telecom operators, the external operating environment of the Group has been changed and the Group's business has been affected accordingly; and the Group's increased investment in research and development is expected to have a positive impact on the Group's results in future.

GEM Listing Rules implication

Given that (1) both the 51% Acquisition and the 49% Acquisition involve acquisition of interest in Hangzhou Huaguang by the Company and (2) these two acquisitions will be completed within a 12 month period, pursuant to Rule 19.22 of the GEM Listing Rules, the 51% Acquisition will be aggregated with the 49% Acquisition.

Since the relevant applicable percentage ratio in respect of the Hangzhou Huaguang Acquisition is more than 25% but less than 100%, the Hangzhou Huaguang Acquisition constitutes a major transaction of the Company under the GEM Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under the GEM Listing Rules.

EGM

Notice convening the EGM to be held at 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC at 2:00 p.m. on 28 August 2009 for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution to approve the Hangzhou Huaguang (51%) Agreement and the Hangzhou Huaguang (49%) Agreement and the transactions contemplated thereunder is set out on pages 131 to 133 of this circular.

LETTER FROM THE BOARD

According to the GEM Listing Rules, no Shareholder shall abstain from voting in respect of the resolutions in connection with this transaction.

Pursuant to the GEM Listing Rules, the vote of the independent Shareholders taken at the EGM to approve the Hangzhou Huaguang (51%) Agreement and the Hangzhou Huaguang (49%) Agreement and the transactions contemplated thereunder will be taken by poll, the results of which will be announced after the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish.

Recommendation

The Board (including independent non-executive Directors) considers that the terms of the Hangzhou Huaguang (51%) Agreement and the terms of the Hangzhou Huaguang (49%) Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Hangzhou Huaguang (51%) Agreement and the Hangzhou Huaguang (49%) Agreement and the transactions contemplated thereunder.

Further information

Your attention is drawn to the additional information as set out in the Appendix V to this circular.

Yours faithfully,
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)

30 June 2009

To the independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
INVOLVING THE TRANSFER OF THE EXCLUSIVE RIGHT TO PURCHASE
EQUITY INTEREST IN ZHEJIANG SICHUANG
AND
MAJOR TRANSACTION AND CONNECTED TRANSACTION
INVOLVING THE DISPOSAL OF 31% EQUITY INTEREST
IN LANDE ZONGHENG**

We refer to the circular of the Company dated 30 June 2009 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you as to whether, in our opinion, the terms of the Rights Transfer Agreement, the SPA (Zongheng) and the transactions contemplated thereunder are normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and how to vote on the resolutions regarding the Rights Transfer Agreement, the SPA (Zongheng) and the transactions contemplated thereunder.

Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the Rights Transfer Agreement, the SPA (Zongheng) and the transactions contemplated thereunder are normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned, whether such terms are in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 26 to 37 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 23 of the Circular and the additional information set out in the appendices of the Circular.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Rights Transfer Agreement, the SPA (Zongheng) and the transactions contemplated thereunder, and the advice of Ample Capital, we are of the opinion that the terms of the Rights Transfer Agreement, the SPA (Zongheng) and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable so far as the independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Rights Transfer Agreement, the SPA (Zongheng) and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee of
Zheda Lande Scitech Limited

Cai Xiao Fu
Independent
non-executive Director

Zhang De Xin
Independent
non-executive Director

Gu Yu Lin
Independent
non-executive Director

LETTER FROM AMPLE CAPITAL

The following is the full text of a letter of advice from Ample Capital to the Independent Board Committee and the Independent Shareholders in relation to the terms of certain aspects of the Transfer of the Exclusive Right and Zongheng Disposal (31%) for the purpose of inclusion in this circular.



Ample Capital Limited
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

30 June 2009

*To the Independent Board Committee and
the Independent Shareholders of
Zheda Lande Scitech Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
INVOLVING THE TRANSFER OF THE EXCLUSIVE RIGHT TO
PURCHASE EQUITY INTEREST
IN ZHEJIANG SICHUANG
AND
MAJOR AND CONNECTED TRANSACTION
INVOLVING THE DISPOSAL OF 31% EQUITY INTEREST
IN LANDE ZONGHENG**

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether (i) proposed transfer of the exclusive right to purchase equity interest in Zhejiang Sichuang (“**Transfer of the Exclusive Right**”) at a consideration of RMB15,000,000; and (ii) proposed disposal of 31% equity interest in Lande Zongheng to Hangzhou Songjie at a consideration of RMB2,600,000 (the “**Zongheng Disposal (31%)**”) are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. The details of the Transfer of the Exclusive Right and Zongheng Disposal (31%) (collectively, the “**Transactions**”) are set out in the Letter from the Board (the “**Board Letter**”) in the circular to the Shareholders dated 30 June 2009 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

LETTER FROM AMPLE CAPITAL

Ample Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to give our recommendation as to whether the terms of the Rights Transfer Agreement and SPA (Zongheng) are fair and reasonable so far as the Independent Shareholders are concerned. Details of the reasons for the proposed Transactions are set out in the Board Letter.

Transfer of the Exclusive Right

On 15 June 2009, the Company exercised the exclusive right to purchase under the Sichuang Exclusive Right to Purchase Contract by serving an exercise notice to Zhejiang Sichuang and Zhejiang Sichuang (Shareholders). On the same day, the Company entered into the Rights Transfer Agreement with Hangzhou Fanhua, an Independent Third Party, whereby the Company appointed Hangzhou Fanhua as its designee to acquire 90% equity interest in Zhejiang Sichuang from Mr. Chen Ping in accordance with the terms of the Sichuang Exclusive Right to Purchase Contract.

In consideration of the Company's transfer of the exclusive right to purchase 90% equity interest in Zhejiang Sichuang, Hangzhou Fanhua agreed to pay the Company a cash consideration of RMB15,000,000 (equivalent to approximately HK\$17,015,000). An equity transfer agreement was subsequently entered into between Hangzhou Fanhua and Mr. Chen Ping on the same date of the Rights Transfer Agreement, whereby Mr. Chen Ping agreed to transfer 90% equity interest in Zhejiang Sichuang to Hangzhou Fanhua following the Company's instruction.

Upon completion of the transactions contemplated under the Rights Transfer Agreement, the Company will cease to have control over Zhejiang Sichuang and Zhejiang Sichuang will be no longer deemed to be a subsidiary of the Company.

The Transfer of the Exclusive Right constitutes a discloseable transaction of the Company under Listing Rule. In addition, Mr. Zhou Yuxiang, who is currently the substantial shareholder of Zhejiang Sichuang, is a controller as defined under Rule 20.10(3) of the GEM Listing Rules by virtue of his directorship in Zhejiang Sichuang (a company which has been deemed to be a subsidiary of the Company under the Sichuang Structure Contracts). As such, despite the fact that the Rights Transfer Agreement was entered into between the Company and Hangzhou Fanhua (an Independent Third Party), the entering into of the Rights Transfer Agreement also constitutes a connected transaction of the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules, which will be subject to the reporting, announcement and independent shareholders' approval requirements.

LETTER FROM AMPLE CAPITAL

Zongheng Disposal (31%)

On 15 June 2009, the Company and Hangzhou Songjie (an Independent Third Party) entered into the SPA (Zongheng), whereby the Company agreed to sell and Hangzhou Songjie agreed to purchase 31% equity interest in Lande Zongheng for a cash consideration of RMB2,600,000 (equivalent to approximately HK\$2,949,000).

On 13 September 2008, the Company disposed of 9% equity interest in Lande Zongheng to Mr. Chen Wei for a cash consideration of RMB0.7 million (or approximately HK\$794,000). Mr. Chen Wei was a connected person of the Company under the GEM Listing Rules by virtue of being the then substantial shareholder of Lande Zongheng. The Zongheng Disposal (9%) was completed in October 2008. As each of the then applicable percentage ratios in respect of the Zongheng Disposal (9%) was less than 2.5%, the Zongheng Disposal (9%) constituted a connected transaction of the Company under the GEM Listing Rules exempt from the reporting, announcement and independent shareholders' approval requirements.

Given that both the Zongheng Disposal (9%) and the Zongheng Disposal (31%) involve the disposal of equity interest in Lande Zongheng by the Company and the completion of the Zongheng Disposal (31%) is expected to be less than 12 months after the completion of the Zongheng Disposal (9%), the Zongheng Disposal (31%) will be aggregated with the Zongheng Disposal (9%) pursuant to Rule 19.22 of the GEM Listing Rules.

The Zongheng Disposal (31%) constitutes a major transaction of the Company under the GEM Listing Rules. In addition, Mr. Chen Wei, who is currently the substantial shareholder of Lande Zongheng, is a controller as defined under Rule 20.10(3) of the GEM Listing Rules by virtue of being the director and chief executive in Lande Zongheng (a subsidiary of the Company). As such, the Zongheng Disposal (31%) also constitutes a connected transaction of the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules, which will be subject to the reporting, announcement and independent shareholders' approval requirements.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in this circular and the information and representations provided to us by the Directors and management of the Group and have assumed that all information and representations made by the Group and the Directors were true, accurate and complete at the time they were made and continue to be so as at the date of the Circular. We consider that we have obtained from the Company all of the necessary information on which to form a reasonable basis for our opinion. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in this circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the affairs of the Group nor have we carried out any independent verification of the information supplied.

LETTER FROM AMPLE CAPITAL

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Rights Transfer Agreement and SPA (Zongheng), we have taken into consideration the following factors:

RIGHTS TRANSFER AGREEMENT

1. Background information

The Company is principally engaged in the business of technology development and services, computer software development, internet engineering and sales of self-manufactured products.

Set out below are the operating results of the Group for the two years ended 31 December 2008 extracted from the Company's annual report for the year ended 31 December 2008 (the "2008 Annual Report").

	For the year ended 31 December 2008 RMB'000 (audited)	For the year ended 31 December 2007 RMB'000 (audited)
Turnover	121,547	131,442
Gross profit	45,058	42,478
Net loss for the year	(6,904)	(13,987)

As stated in the 2008 Annual Report, we noted that the Company's turnover decreased from approximately RMB131.4 million for the year ended 31 December 2007 to approximately RMB121.5 million for the year ended 31 December 2008, representing an decrease of approximately 7.5% as compared to the previous year. The Company's net loss reduced from RMB14.0 million for the year ended 31 December 2007 to approximately RMB6.9 million for the year ended 31 December 2008. The main reasons for the results for the year ended 31 December 2008 were: (1) owing to the restructuring and business adjustment of major telecom operators, the external operating environment of the Company was changed and thus affected the Company's business; and (2) the Company increased investment in research and development which had a direct impact on the results.

LETTER FROM AMPLE CAPITAL

2. Information about Zhejiang Sichuang

As shown in the Board Letter, Zhejiang Sichuang is a limited liability company incorporated in the PRC and is principally engaged in the development of the computer software, internet technology and related products, the sales of computer hardware and software, and technical services. Selected key financial information, prepared under the PRC GAAP, of the Zhejiang Sichuang as extracted is set out below:

	For the year ended 31 December 2008 (RMB'000) (audited)	For the year ended 31 December 2007 (RMB'000) (audited)
Turnover	9,808	8,331
Loss before tax and extraordinary items	(5,233)	(1,764)
Loss after tax	(5,233)	(1,764)
	As at 31 December 2008	As at 31 December 2007
Net asset value	20,896	25,993

Prior to the completion of the Rights Transfer Agreement, Zhejiang Sichuang was 90% owned by Mr. Chen Ping and 10% by Mr. Zhou Yuxiang.

The Sichuang Structure Contracts provided the Company with effective control over and (to the extent permitted by the relevant PRC laws, rules and regulations) the right to acquire the equity interest of Zhejiang Sichuang. The arrangements under the Sichuang Structure Contracts, taken as a whole, permitted the results and financial position of Zhejiang Sichuang to be consolidated with the Company as if it was a subsidiary of the Company and that the economic benefit of the businesses of Zhejiang Sichuang and its subsidiaries flows to the Company.

Upon completion of the transactions contemplated under the Rights Transfer Agreement, the Company will cease to have control over Zhejiang Sichuang and Zhejiang Sichuang will no longer be deemed to be a subsidiary of the Company and as a result, the results and financial position of Zhejiang Sichuang will no longer be consolidated with that of the Company.

3. Reasons for the Transfer of the Exclusive Right

With reference to the Board Letter, taking into account that (i) the Transfer of the Exclusive Right would reduce the financial and operating risks of the Group; and (ii) the business of Zhejiang Sichuang is not in line with the Group's operational objective, the Directors believe that the Transfer of the Exclusive Right is in the interests of the Company and Shareholders as a whole.

In addition, as stated in the 2008 Annual Report, we noted that in face of restructuring and business adjustment of telecom operators, the Group's application business has to adapt to such changes in relation to software upgrading and development of new software for the telecom operators. The Group has also tried to develop some new products and applications, such as enterprise TV Station service, enterprise Ji Shi Tong service and precise market system, all of which will become the Group's key sources of income in the future. The Group's focus will be placed on value-added services according to their business plan. According to the management of the Company, value-added business means 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 highspeed 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-ondemand (VOD), etc.

As confirmed by the Directors, the Company intends to apply the net proceeds of RMB15,000,000 derived from the disposal of the right to purchase 90% equity interest in Zhejiang Sichuang for the investment in development of Group's new business and/or for general working capital purpose.

In light of the above reasons for the Transfer of the Exclusive Right as well as that the cash proceeds from the Transfer of the Exclusive Right will bring cash inflow to the Group upon completion and thus enhance the Group's liquidity, we are of the view that the Transfer of the Exclusive Right is in the interests of the Company and the Shareholders as a whole.

4. Basis of the consideration for the Transfer of the Exclusive Right (the "Consideration A")

As shown in the Board Letter, the Consideration A was determined after arm's length negotiations with reference to the audited net asset value of Zhejiang Sichuang for the year ended 31 December 2008 prepared under the PRC GAAP of approximately RMB20,896,000 (approximately HK\$23,702,000) and represents a discount of approximately 20.24% of 90% of such net asset value (approximately RMB18,806,000 (approximately HK\$21,332,000)).

LETTER FROM AMPLE CAPITAL

In assessing the fairness of the Consideration A, we have, to the best of our knowledge, reviewed and compared the price-earnings multiple and price to book ratios of all the listed companies listed on the main board and the growth enterprise market of the Stock Exchange which are principally engaged in software development and provision of software-related technical services as at the 15 June 2009 (the “**Last Trading Day**”), being the last full trading day before the release of the announcement dated 15 June 2009 (the “**Market Comparables**”).

Our review is summarized as follows:

Company Name (Stock Code)	Price-earnings multiple based on closing share price (Note 1) (times)	Price to book ratios as at the Last Trading Day (Note 2) (times)
Kingdee International Software Group Co. Ltd. (268)	13.16	2.66
SinoCom Software Group Ltd. (299)	0.74	0.16
Founder Holdings Ltd. (418)	17.53	1.02
DVN (Holdings) Ltds. (500)	6.49	0.58
Kantone Holdings Ltd. (1059)	7.70	0.48
Kingsoft Corporation Ltd. (3888)	16.33	3.82
Qianlong Technology International Holdings Ltd. (8015)	7.99	1.16
Timeless Software Ltd. (8028) (Note 3)	–	0.85
Jiangsu Nanda Technology Co. Ltd. (8045)	23.12	1.47
Excel Technology International Holdings Ltd. (8048) (Note 3)	–	0.70
FlexSystem Holdings Ltd. (8050)	6.44	2.20
Armitage Technologies Holding Ltd. (8213) (Note 3)	–	2.50
Chinasoft International Ltds (354)	16.75	1.29
Minimum	0.74	0.16
Maximum	23.12	3.82
Average	11.62	1.45
Zhejiang Sichuang (Note 3)	–	0.80

Source: Hong Kong Exchanges and Clearing Limited

Notes:

1. Quote as at the Last Trading Day.
2. Calculated based on the market capitalization of the Market Comparables as at the Last Trading Day and the net asset value from Hong Kong Exchanges and Clearing Limited, with exchange rate of HKD to RMB of 1: 1.13 from Hong Kong Monetary Authority as at the Last Trading Day.
3. This company recorded a loss for the relevant year.

LETTER FROM AMPLE CAPITAL

(a) Price earnings multiple

Although price-earnings multiple is one of the most commonly used benchmarks for comparing valuations, since Zhejiang Sichuang recorded unaudited net loss for the year ended 31 December 2008, prepared under the PRC GAAP, we consider the use of price-earnings multiple not a meaningful comparison method for assessing the Transfer of the Exclusive Right.

(b) Net asset value

As stated in the Board Letter, the Consideration A was determined after arm's length negotiations with reference to the audited net asset value of Zhejiang Sichuang for the year ended 31 December 2008 prepared under the PRC GAAP of approximately RMB20,896,000 (approximately HK\$23,702,000) and represents a discount of approximately 20.24% of 90% of such net asset value (approximately RMB18,806,000 (approximately HK\$21,332,000)).

As shown in the above table, the price to book ratios of the Market Comparables ranging from a discount of approximately 84% to a premium of approximately 382%, with an average premium of approximately 145%. The Consideration A payable by Hangzhou Fanhua represents a discount of approximately 20% of the relevant net asset value, which fall within the range of comparison with the Market Comparables. We also understand that the Consideration A was determined with reference to the loss-making situation of the Zhejiang Sichuang for the two years ended 31 December 2008. We have also reviewed the other major terms of the Rights Transfer Agreement and are not aware of any terms which are unusual. In this regard, we are of the view that the consideration is on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders a whole.

5. Financial effects of the Transfer of the Exclusive Right

Effect on net asset value ("NAV")

According to the 2008 Annual Report, the NAV of Group was approximately RMB86.2 million (approximately HK\$97.4 million) as at 31 December 2008. As confirmed by the Directors, the Group's NAV would be decreased upon completion of Transfer of the Exclusive Right.

Effect on earnings

According to the Board Letter, upon completion of the transactions contemplated under the Rights Transfer Agreement, the Company will incur a loss of approximately RMB3,800,000 (approximately HK\$4,300,000) prepared under the PRC GAAP.

LETTER FROM AMPLE CAPITAL

Effect on gearing

According to the 2008 Annual Report, the Group's gearing level, which is calculated as liabilities over total assets, was approximately 0.25 times. The Directors confirmed that the Disposal would not lead to any material change in the total liabilities of the Group and the equity attributable to the Shareholders. Consequently, the Transfer of the Exclusive Right would not have material impact on the gearing position of the Group.

Effect on working capital

The Transfer of the Exclusive Right will provide additional working capital to the Group as the proceeds from the Transfer of the Exclusive Right will be used for the Group's general working capital.

Zongheng Disposal (31%)

1. Information about Lande Zongheng

As shown in the Board Letter, Lande Zongheng is a limited liability company incorporated in the PRC and is principally engaged in the development and technical services of the computer software, internet technology and its products, integration of computer network, technical services of artificial intelligent building system, integration of cabling, safety supervision and network maintenance, sales of computer hardware and software. Selected key financial information, prepared under the PRC GAAP, of the Lande Zongheng as extracted is set out below:

	For the year ended 31 December 2008 (RMB'000) (audited)	For the year ended 31 December 2007 (RMB'000) (audited)
Turnover	26,198	16,790
Profit before tax and extraordinary items	1,601	180
Profit after tax	1,544	180
	As at 31 December 2008	As at 31 December 2007
Net asset value	7,111	5,567

LETTER FROM AMPLE CAPITAL

2. Reasons for and Benefits of the entering into the SPA (Zongheng)

With reference the Board Letter, taking into account that (i) the market uncertainties faced by Lande Zongheng; (ii) the increase of Lande Zongheng's operation cost following the market adjustment; and (iii) the business of Lande Zongheng is not in line with the Group's core business (i.e. value-added business), we concur with the view of the Board that disposal of Lande Zongheng shall reduce the financial and operating risks of the Group and is in the interests of the Company and the Shareholders as a whole.

We noted that Lande Zongheng has engaged in the specialized development and maintenance of information management system for telecommunication operators since its incorporation. Based on our discussion with the management of the Company, we understand that nowadays, the three largest telecommunication operators in China have already had well established foundations for information technology application, and due to improvements gained throughout the years, the volume of software development has been decreasing. Therefore, it is considered by the Board that the market uncertainties faced by Lande Zongheng is sustainable. According to the above, the restructuring and integration of telecommunications have caused the loss of clients. As a result, Lande Zongheng has suffered significant increase in cost and its developmental orientation has deviated from the scope of the Group's strategic goals or core business (i.e. value-added business).

We have also reviewed the annual results of Lande Zongheng and noted that the Company's operation cost increased from approximately RMB9.9 million for the year ended 31 December 2007 to approximately RMB12.6 million for the year ended 31 December 2008, representing an increase of approximately 27% as compared to the previous year.

Upon completion of the Zongheng Disposal (31%), the Company is expected to incur a gain of approximately RMB396,000 (approximately HK\$449,000) prepared under the PRC GAAP. Such gain is calculated on the basis of the consideration of RMB2,600,000 (approximately HK\$2,949,000) less the Company's 31% interest of the audited net asset value (approximately RMB2,204,000 (approximately HK\$2,500,000)) prepared under the PRC GAAP of Lande Zongheng as at 31 December 2008.

In light of the above reasons, we are of the view that the Zongheng Disposal (31%) is in the interests of the Company and the Shareholders as a whole.

LETTER FROM AMPLE CAPITAL

3. *Basis of the consideration for the Zongheng Disposal (31%) (the “Consideration B”)*

As confirmed by the Directors, the Consideration B was arrived at after arm’s length negotiations between the Company and Hangzhou Songjie with reference to the audited net asset value of Lande Zongheng for the year ended 31 December 2008 prepared under the PRC GAAP of approximately RMB7,111,000 (approximately HK\$8,066,000).

In assessing the fairness of the Consideration B, we have also reviewed and compared the price-earnings multiple and price to book ratios of the Market Comparables, which is similar to the business of the Company.

(a) Price earnings multiple

Based on the financial information of the Lande Zongheng, for the 2008 financial year, we calculated the implied price-earnings multiple of the Lande Zongheng, being the Consideration B divided by 31% of the audited net profit after tax of the Lande Zongheng for the year ended 31 December 2008 to be of approximately 5.41 times. As depicted by the above table stated in the section headed “Basis of the consideration for the Transfer of the Exclusive Right” in this letter, the price-earnings multiple of the Market Comparables ranged from approximately 0.74 times to 23.12 times, while the price-earnings multiple of the Lande Zongheng is approximately 5.41 times, which falls within the range of the Market Comparables.

(b) Net asset value

As stated in the Board Letter, the Consideration B was determined after arm’s length negotiations with reference to the audited net asset value of Lande Zongheng for the year ended 31 December 2008 prepared under the PRC GAAP and represents a premium of approximately 17.95% of 31% of such net asset value (approximately RMB7,111,000 (approximately HK\$8,066,000)).

As shown in the table, the price to book ratios of the Market Comparables ranging from a discount of approximately 84% to a premium of approximately 382%, with an average premium of approximately 145%. The Consideration B payable by Hangzhou Songjie represents a premium of approximately 17.95% of the relevant net asset value, which fall within the range of comparison with the Market Comparables.

In view of that the Consideration represents a premium of appropriately 17.95% over the the said net asset value, we are of the opinion that the Consideration B is fair and reasonable so far as the Independent Shareholders are concerned.

We have also reviewed the other major terms of the SPA (Zongheng) and are not aware of any terms which are unusual. Based on the above, we are of the view that the terms of the SPA (Zongheng) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM AMPLE CAPITAL

4. *Financial effects of the Zongheng Disposal (31%)*

Effect on NAV

According to the 2008 Annual Report, the NAV of Group was approximately RMB86.2 million (approximately HK\$97.4 million) as at 31 December 2008. As confirmed by the Directors, the Group's NAV would be increased upon completion of Zongheng Disposal (31%).

Effect on earnings

As referred to in the Board Letter, the Group is expected to record a gain of RMB396,000 (approximately HK\$449,000) from the Zongheng Disposal (31%).

Effect on gearing

The Directors confirmed that the Zongheng Disposal (31%) would not lead to any material change in the total liabilities of the Group and the equity attributable to the Shareholders. Consequently, the Zongheng Disposal (31%) would not have material impact on the gearing position of the Group.

Effect on working capital

We understand from the Board Letter that the Company will apply the net proceeds from the Zongheng Disposal (31%) for general working capital of the Group. The Group's working capital would thus be enlarged upon completion of Zongheng Disposal (31%).

CONCLUSION

Having considered the above principal factors, we are of the opinion that the terms of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, we consider that the Transactions are on normal commercial terms and in the ordinary and usual courses of business of the Group. Accordingly, we would recommend (1) the Independent Board Committee to advise the Independent Shareholders and (2) the Independent Shareholders, to vote in favor of the ordinary resolution to approve the Rights Transfer Agreement and SPA (Zongheng) at the EGM.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H. W. Tang
President

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 2008, 2007 and 2006, and the audited consolidated balance sheets of the Group as at 31 December 2008, 2007 and 2006 as extracted from the Company's annual reports for each of the three years ended 31 December 2008, 2007, 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 2008, 2007 and 2006

	2008	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	121,547	131,442	163,752
Cost of sales	<u>(76,489)</u>	<u>(88,964)</u>	<u>(122,070)</u>
Gross profit	45,058	42,478	41,682
Other operating income	15,513	10,951	12,783
Distribution and selling expenses	(9,926)	(12,795)	(12,533)
General and administrative expenses	(56,655)	(51,509)	(61,275)
Finance costs	–	(2,781)	(4,527)
Share of results of associates	<u>(379)</u>	<u>901</u>	<u>1,783</u>
(Loss) profit before taxation	(6,389)	(12,755)	(22,087)
Taxation	<u>(515)</u>	<u>(1,232)</u>	<u>(3,002)</u>
(Loss) profit for the year	<u><u>(6,904)</u></u>	<u><u>(13,987)</u></u>	<u><u>(25,089)</u></u>
Attributable to:			
– Equity holders of the Company	(7,356)	(12,856)	(21,017)
– Minority interests	<u>452</u>	<u>(1,131)</u>	<u>(4,072)</u>
	<u><u>(6,904)</u></u>	<u><u>(13,987)</u></u>	<u><u>(25,089)</u></u>
(Loss) earnings per share			
– Basic (RMB)	<u><u>(0.022)</u></u>	<u><u>(0.038)</u></u>	<u><u>(0.062)</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Audited Consolidated Balance Sheets***As at 31 December 2008, 2007 and 2006*

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	6,285	10,133	13,148
Intangible assets	317	6,799	9,136
Goodwill	956	3,484	5,485
Interests in associates	–	2,221	6,313
Other non-current assets	–	328	351
	<u>7,558</u>	<u>22,965</u>	<u>34,433</u>
Current assets			
Inventories	–	505	2,180
Contract work in progress	–	1,431	11,253
Amounts due from customers for contract work	1,349	–	–
Trade receivables	39,761	35,185	44,052
Prepayments and other receivables	57,245	104,467	114,251
Amounts due from associates	–	1,288	1,249
Bank balances and cash	25,428	13,955	19,546
Pledged bank deposits	–	–	12,000
Available-for-sale investments	–	–	120
	<u>123,783</u>	<u>156,831</u>	<u>204,651</u>
Current liabilities			
Trade and other payables	29,018	71,834	29,511
Receipt in advance from customers	919	1,204	9,200
Amount due to a director	–	3,098	3,854
Current tax liabilities	2,418	2,432	2,674
Amounts due to minority shareholders	–	–	1,092
Short-term borrowings	–	–	76,800
	<u>32,355</u>	<u>78,568</u>	<u>123,131</u>
Net current assets	<u>91,428</u>	<u>78,263</u>	<u>81,520</u>
NET ASSETS	<u>98,986</u>	<u>101,228</u>	<u>115,953</u>
Capital and reserves			
Paid-in capital	35,655	33,958	33,958
Reserves	<u>50,576</u>	<u>53,350</u>	<u>66,206</u>
Equity attributable to the equity holders of the Company	86,231	87,308	100,164
Minority interests	<u>12,755</u>	<u>13,920</u>	<u>15,789</u>
TOTAL EQUITY	<u>98,986</u>	<u>101,228</u>	<u>115,953</u>

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below are the audited financial statements of the Company for each of the two years ended 31 December 2008, which are extracted from the annual report of the Company for the year ended 31 December 2008.

Consolidated Income Statement

For the year ended 31 December 2008

		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	7	121,547	131,442
Cost of sales		<u>(76,489)</u>	<u>(88,964)</u>
Gross profit		45,058	42,478
Other operating income		15,513	10,951
Distribution and selling expenses		(9,926)	(12,795)
General and administrative expenses		(56,655)	(51,509)
Finance costs	10	–	(2,781)
Share of results of associates	18	<u>(379)</u>	<u>901</u>
Loss before taxation		(6,389)	(12,755)
Taxation	11	<u>(515)</u>	<u>(1,232)</u>
Loss for the year	12	<u><u>(6,904)</u></u>	<u><u>(13,987)</u></u>
Attributable to:			
Equity holders of the Company		(7,356)	(12,856)
Minority interests		<u>452</u>	<u>(1,131)</u>
		<u><u>(6,904)</u></u>	<u><u>(13,987)</u></u>
Dividend	13	<u><u>–</u></u>	<u><u>–</u></u>
Loss per share			
Basic	14	<u><u>RMB(0.022)</u></u>	<u><u>RMB(0.038)</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***As at 31 December 2008*

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	15	6,285	10,133
Intangible assets	16	317	6,799
Goodwill	17	956	3,484
Interests in associates	18	–	2,221
Other non-current assets		–	328
		<u>7,558</u>	<u>22,965</u>
Current assets			
Inventories	19	–	505
Contract work in progress		–	1,431
Amounts due from customers			
for contract work	20	1,349	–
Trade receivables	21	39,761	35,185
Prepayments and other receivables	22	57,245	104,467
Amounts due from associates	33	–	1,288
Bank balances and cash	23	25,428	13,955
		<u>123,783</u>	<u>156,831</u>
Current liabilities			
Trade and other payables	24	29,018	71,834
Receipt in advance from customers		919	1,204
Amount due to a director	25	–	3,098
Current tax liabilities		2,418	2,432
		<u>32,355</u>	<u>78,568</u>
Net current assets		<u>91,428</u>	<u>78,263</u>
NET ASSETS		<u>98,986</u>	<u>101,228</u>
Capital and reserves			
Paid-in capital	26	35,655	33,958
Reserves	27	50,576	53,350
		<u>86,231</u>	<u>87,308</u>
Equity attributable to the equity holders of the Company		86,231	87,308
Minority interests		12,755	13,920
TOTAL EQUITY		<u>98,986</u>	<u>101,228</u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2008*

	Attributable to equity holders of the Company						Total
	Paid-in capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	
At 1 January 2007	33,958	71,988	10,567	(16,349)	100,164	15,789	115,953
Loss for the year	–	–	–	(12,856)	(12,856)	(1,131)	(13,987)
Disposal of subsidiaries	–	–	–	–	–	(1,488)	(1,488)
Capital contributions from minority shareholders	–	–	–	–	–	750	750
At 31 December 2007	33,958	71,988	10,567	(29,205)	87,308	13,920	101,228
(Loss) profit for the year	–	–	–	(7,356)	(7,356)	452	(6,904)
Disposal of subsidiaries	–	–	–	–	–	(2,668)	(2,668)
Partial disposal of a subsidiary	–	–	–	–	–	551	551
Issue of shares	1,697	4,582	–	–	6,279	–	6,279
Capital contributions from minority shareholders	–	–	–	–	–	500	500
At 31 December 2008	<u>35,655</u>	<u>76,570</u>	<u>10,567</u>	<u>(36,561)</u>	<u>86,231</u>	<u>12,755</u>	<u>98,986</u>

Consolidated Cash Flow Statements*For the year ended 31 December 2008*

	<i>Note</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
OPERATING ACTIVITIES			
Loss before taxation		(6,389)	(12,755)
Adjustments for:			
Amortisation of intangible assets		1,547	3,838
Bad debts recovered on trade and other receivables		(4,041)	–
Depreciation of property, plant and equipment		2,920	3,390
Finance costs		–	2,781
Gain on partial disposal of a subsidiary		(149)	–
(Gain) loss on disposal of subsidiaries		(2,974)	186
Impairment loss on intangible assets		–	337
Impairment loss on trade and other receivables		7,338	9,195
Impairment loss on property, plant and equipment		–	583
Impairment loss on other non-current assets		328	–
Interest income		(160)	(436)
Loss (gain) on disposal of interests in associates		632	(1,582)
Loss (gain) on disposal of property, plant and equipment		104	(1,054)
Loss on disposal of available-for-sales investments		–	56
Write back of impairment loss on trade and other receivables		(3,600)	–
Reversal of write down of inventory		(2,404)	–
Share of results of associates		379	(901)
Write down of inventories to net realisable value		–	1,439
Operating cash flows before movements in working capital		(6,469)	5,077
Decrease in inventories		2,399	157
Decrease in contract work in progress		1,431	7,997
Increase in amounts due from customers for contract work		(1,349)	–
(Increase) decrease in trade receivables		(24,318)	4,449
Decrease (increase) in prepayments and other receivables		37,928	(1,876)
Decrease (increase) in amounts due from associates		1,288	(39)
Decrease in other non-current assets		–	23
(Decrease) increase in trade and other payables		(11,977)	12,437
Decrease in receipt in advance from customers		(285)	(7,996)
Cash (used in) generated from operations		(1,352)	20,229
PRC income tax paid		(529)	(1,474)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(1,881)	18,755

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>Note</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
INVESTING ACTIVITIES			
Net proceeds from disposal of subsidiaries	29	11,256	2,377
Repayment from related parties (included in prepayments and other receivables)		9,824	9,456
Proceeds from disposal of associates		1,210	6,575
Proceeds from partial disposal of a subsidiary		700	–
Proceeds from disposal of property, plant and equipment		342	2,512
Interest received		160	436
Purchase of property, plant and equipment		(1,241)	(3,348)
Purchase of intangible assets		(300)	(1,838)
Decrease in pledged bank deposits		–	12,000
NET CASH FROM INVESTING ACTIVITIES		<u>21,951</u>	<u>28,170</u>
FINANCING ACTIVITIES			
(Repayment to) advance from related parties (included in other payables)		(5,999)	21,884
Repayment of amount due to a director		(3,098)	(756)
Capital contribution from minority shareholders		500	750
Receipt in advance for subscription of shares		–	6,279
Repayment of bank borrowings		–	(76,800)
Decrease in amounts due to minority shareholders		–	(1,092)
Interest paid		–	(2,781)
NET CASH USED IN FINANCING ACTIVITIES		<u>(8,597)</u>	<u>(52,516)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		11,473	(5,591)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>13,955</u>	<u>19,546</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		<u>25,428</u>	<u>13,955</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

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

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is principally engaged in the provision of telecommunication solutions, trading of hardware and computer software, provision of telecommunication value-added services, and investment holding. The principal activities of its subsidiaries are set out in note 35 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 and its subsidiaries (the “Group”).

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

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations (“new IFRSs”) issued by the IASB and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB, which are effective for the Group’s financial year beginning 1 January 2008.

IFRIC – INT 11	IFRS 2: Group and Treasury Share Transactions
IFRIC – INT 12	Service Concession Arrangements
IFRIC – INT 14	International Accounting Standard (“IAS”) 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their interaction
IAS 39 & IFRS7 (Amendments)	Reclassification of Financial Assets

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

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

IFRSs (Amendments)	Improvements to IFRSs ¹
IAS 1 (Revised)	Presentation of Financial Statements ²
IAS 23 (Revised)	Borrowing Cost ²
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items ³
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards ³
IFRS 1 & IAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associates ²
IFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ²
IFRS 3 (Revised)	Business Combination ³
IFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments ²
IFRS 8	Operating Segments ²
IFRIC – INT 9 & IAS 39 (Amendments)	Embedded Derivatives ⁶

IFRIC – INT 13	Customer Loyalty Programmes ⁴
IFRIC – INT 15	Agreements for the Construction of Real Estate ²
IFRIC – INT 16	Hedges of a Net Investment in a Foreign Operation ⁵
IFRIC – INT 17	Distribution of Non-cash Assets to Owners ³
IFRIC – INT 18	Transfers of Assets from Customers ⁷

- ¹ Effective for annual periods beginning on or after 1 January 2009, except the amendments to IFRS 5 which are effective for annual periods beginning on or after 1 July 2009.
- ² Effective for annual periods beginning on or after 1 January 2009.
- ³ Effective for annual periods beginning on or after 1 July 2009.
- ⁴ Effective for annual periods beginning on or after 1 July 2008.
- ⁵ Effective for annual periods beginning on or after 1 October 2008.
- ⁶ Effective for annual periods ending on or after 30 June 2009.
- ⁷ Effective for transfers of assets from customers received on or after 1 July 2009.

The directors of the Company anticipate the application of these revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group except for the application of IFRS 3 (Revised) and IAS 27 (Revised). The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB. In addition, the consolidated financial statements include 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 consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated 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 consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination 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.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary 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.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When 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 first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are 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 associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of 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.

Revenue recognition

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

(i) Income from provision of telecommunication solutions

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

(ii) *Income from trading of hardware and computer software*

Revenue is recognised when the 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) *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.

(iv) *Interest income*

Interest income from a financial assets 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.

(v) *Subsidy income*

Subsidy income is recognised upon cash receipt.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production, supply of goods and administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land and building

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

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

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 expenditure (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.

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. Variations 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.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

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

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities.

Effective interest method

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

Interest expenses is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables and amount due to a director are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

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

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

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

Rentals payable under operating leases are charged to profit for loss on a straight-line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

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

Government grants

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.

Retirement benefit costs

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

Taxation

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

Current tax payable 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 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 arising on 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.

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 is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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. In addition, 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 they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Construction contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the contract revenue, contract costs and foreseeable losses of construction work based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, management reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses, where the actual contract revenue are less than expected or actual contract costs are more than expected, a material impairment loss may arise.

Key sources of estimation uncertainty

The following are the 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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of goodwill is RMB956,000. Details of the recoverable amount calculation are disclosed in note 17.

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of trade receivables and prepayments and other receivables is RMB39,761,000 (net of impairment loss of RMB16,395,000) and RMB57,245,000 (net of impairment loss of RMB26,059,000), respectively.

5. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other shareholders, and to provide adequate return to shareholders by pricing products and service commensurately with the level of risks.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising paid in capital, reserves and accumulated losses. The Group's approach to capital management remains unchanged from prior year.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**a. Categories of financial instruments**

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	114,110	143,581
Financial liabilities		
At amortised cost	25,523	71,751

b. Financial risk management objectives and policies

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

(i) Credit risks

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 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.

(ii) *Currency risk*

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

(iii) *Interest rate risk*

The Group's exposure to interest rate risk is through the impact of rate changes on interest-bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short-term in nature. There were no interest-bearing financial liabilities as at 31 December 2008. The management monitors the movement in market interest rates and reviews such impact on the Group on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

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

(iv) *Liquidity risk*

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when fall due in the foreseeable future. As at 31 December 2007 and 2008, the other financial liabilities including trade and other payables and amount due to a director of the Group are all due for settlement contractually within one year.

c. Fair values of financial assets and financial liabilities

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

7. TURNOVER AND SEGMENT INFORMATION

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

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.

For the year ended 31 December

	Provision of telecommunication solutions		Trading of hardware and computer software		Provision of telecommunication value-added services		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December								
Segment turnover	22,508	14,135	48,033	61,041	51,006	56,266	121,547	131,442
Segment results	(37)	(5,993)	(3,314)	(3,772)	8,326	(3,032)	4,975	(12,797)
Unallocated revenue							15,353	10,515
Unallocated expenses							(26,498)	(9,029)
Share of results of associates	–	–	(379)	183	–	718	(379)	901
Finance costs							–	(2,781)
Interest income							160	436
Loss before taxation							(6,389)	(12,755)
Taxation							(515)	(1,232)
Loss for the year							(6,904)	(13,987)
As at 31 December								
Segment assets	12,811	9,226	24,628	8,720	8,597	71,064	46,036	89,010
Interests in associates	–	57	–	596	–	1,568	–	2,221
Unallocated assets							85,305	88,565
Total assets							131,341	179,796
Segment liabilities	6,060	1,022	1,344	978	3,155	19,983	10,559	21,983
Unallocated liabilities							21,796	56,585
Total liabilities							32,355	78,568

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

	Provision of telecommunication solutions		Trading of hardware and computer software		Provision of telecommunication value-added services		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December								
Other segment information:								
Capital expenditures	167	560	191	110	933	4,516	1,291	5,186
Unallocated capital expenditure							250	–
Total capital expenditure							1,541	5,186
Depreciation and amortisation	331	3,269	1,223	103	2,901	3,856	4,455	7,228
Unallocated depreciation and amortisation							12	–
Total depreciation and amortisation							4,467	7,228
Impairment loss on trade and other receivables	3,720	1,913	–	–	–	–	3,720	1,913
Unallocated impairment loss on trade and other receivables							3,618	7,282
Total impairment loss on trade and other receivables							7,338	9,195
For the year ended 31 December								
Write-down of inventories to net realisable value	–	–	–	1,439	–	–	–	1,439
Impairment loss on property, plant and equipment	–	–	–	–	–	583	–	583
Impairment loss on intangible assets	–	–	–	–	–	337	–	337
Unallocated impairment loss on other non-current assets							328	–
Reversal of write down of inventory	(2,404)	–	–	–	–	–	(2,404)	–
Unallocated write back of impairment loss on trade and other receivables							(3,600)	–
Unallocated (gain) loss on disposal of subsidiaries							(2,974)	186
Unallocated gain on partial disposal of a subsidiary							(149)	–
Unallocated loss (gain) on disposal of interests in associates							632	(1,582)
Unallocated bad debt recovered on trade and other receivables							(4,041)	–
Loss (gain) on disposal of property, plant and equipment	7	–	37	–	60	(21)	104	(21)
Unallocated gain on disposal of property, plant and equipment							–	(1,033)
Total loss (gain) on disposal of property, plant and equipment							104	(1,054)

(b) Secondary reporting segment – geographical segment

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

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The details of directors' remuneration of each of nine (2007: eleven) directors and supervisors' emoluments of each of five (2007: seven) supervisors for the years ended 31 December 2008 and 2007 are set out below:

For the year ended 31 December 2008

	Fees	Salaries and	Contributions	
	RMB'000	other benefits	to retirement	Total
		RMB'000	benefits	RMB'000
			scheme	
			RMB'000	
<i>Executive directors:</i>				
Mr. Chen Ping	–	22	–	22
Mr. Shi Lie	–	22	–	22
Mr. Hu Yang Jun	–	22	–	22
Mr. Chao Hong Bo	–	22	–	22
Ms. Geng Hui	–	22	–	22
Mr. Xia Zhen Hai	–	22	–	22
<i>Independent non-executive directors:</i>				
Mr. Cai Xiao Fu	22	–	–	22
Mr. Zhang De Xin	22	–	–	22
Mr. Gu Yu Lin	22	–	–	22
<i>Supervisors:</i>				
Mr. Huo Zhong Hui	–	3	–	3
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Ms. Xue Yun	–	3	–	3
Mr. Zheng Bing	–	3	–	3
Total	66	147	–	213

For the year ended 31 December 2007

	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
<i>Executive directors:</i>				
Mr. Chen Ping	–	–	–	–
Mr. Xue Shi Cheng (Note 1)	–	–	–	–
Mr. Shi Lie	–	20	–	20
Mr. Hu Yang Jun	–	20	–	20
Ms. Pan Lichun (Note 4)	–	10	–	10
Mr. Chao Hong Bo (Note 2)	–	10	–	10
Ms. Geng Hui (Note 3)	–	10	–	10
Mr. Xia Zhen Hai (Note 3)	–	10	–	10
<i>Independent non-executive directors:</i>				
Mr. Cai Xiao Fu	20	–	–	20
Mr. Zhang De Xin	20	–	–	20
Mr. Gu Yu Lin	20	–	–	20
<i>Supervisors:</i>				
Mr. Huo Zhong Hui	–	3	–	3
Mr. Fu Liang Yuan (Note 4)	–	–	–	–
Ms. Liu Cui Yu (Note 4)	–	–	–	–
Mr. Feng Pei Xian	–	3	–	3
Mr. Wang Hui	–	3	–	3
Ms. Xue Yun (Note 3)	–	3	–	3
Mr. Zheng Bing (Note 3)	–	–	–	–
Total	60	92	–	152

Notes:

- (1) Resigned on 20 July 2007.
- (2) Appointed on 20 July 2007.
- (3) Appointed on 20 September 2007.
- (4) Resigned on 12 October 2007.

No directors waived any emoluments for the two years ended 31 December 2008.

No incentive payment for joining the Group or as compensation for loss of office was paid or payable to any directors for the two years ended 31 December 2008.

9. EMPLOYEES' EMOLUMENTS

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

During the year, the five highest paid individuals do not include directors and supervisors (2007: Nil) of the Company, whose emoluments have been included in Note 8 above. The emoluments of the five (2007: five) individuals were as follows:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Salaries and other benefits	581	580
Contributions to retirement benefits scheme	84	92
	<u>665</u>	<u>672</u>

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

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 for the two years ended 31 December 2008.

10. FINANCE COSTS

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	–	2,781
	<u>–</u>	<u>2,781</u>

11. TAXATION

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
The tax charge comprises:		
PRC Enterprises Income Tax ("EIT")		
– current year	397	1,232
– underprovision in prior years	118	–
	<u>515</u>	<u>1,232</u>

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the EIT rate of the Group's certain subsidiaries in the PRC was reduced from 33% to 25% progressively from 1 January 2008.

The Company and certain of its subsidiaries were subject to EIT at rate of 15% (2007: 15%) as they were classified as Advanced and New Technology Enterprise.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries is exempt from PRC EIT for two years from the first profit-making year, followed by a 50% reduction for the next three years.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for the two years ended 31 December 2008.

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Loss before taxation	<u>(6,389)</u>	<u>(12,755)</u>
Tax at the domestic income tax rate of 15% (2007: 15%)	(958)	(1,913)
Tax effect of expenses not deductible and income not taxable for tax purpose	1,442	670
Tax effect of tax losses not recognised	2,061	2,901
Effect of difference tax rates of subsidiaries	(872)	238
Tax effect of utilisation of tax losses previously not recognised	(314)	(664)
Effect of tax exemption	(962)	–
Underprovision in respect of prior years	<u>118</u>	<u>–</u>
Tax charge for the year	<u>515</u>	<u>1,232</u>

12. LOSS FOR THE YEAR

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Salaries and other benefits (including directors' and supervisors' emoluments)	17,374	10,725
Contributions to retirement benefits scheme	3,512	3,594
Total staff costs	20,886	14,319
Amortisation of intangible assets	1,547	3,838
Auditors' remuneration	458	550
Depreciation of property, plant and equipment	2,920	3,390
Impairment loss on property, plant and equipment	–	583
Impairment loss on intangible assets	–	337
Impairment loss on trade and other receivables	7,338	9,195
Impairment loss on other non-current assets	328	–
Loss (gain) on disposal of interests in associates	632	(1,582)
Loss (gain) on disposal of property, plant and equipment	104	(1,054)
Loss on disposal of available-for-sale investments	–	56
Operating lease expense for office premises	2,377	1,318
Research and development costs	11,917	8,860
Share of tax of associates (included in share of results of associates)	–	116
Write down of inventories (included in administrative expense)	–	1,439
Bank interest income	(160)	(436)
Bad debts recovered on trade and other receivables	(4,041)	–
Government grants (<i>Note 2</i>)	(742)	(5,799)
Gain on partial disposal of a subsidiary	(149)	–
Reversal of write down of inventories	(2,404)	–
Subsidy income (<i>Note 1</i>)	(1,443)	(1,202)
Write back of impairment loss on trade and other receivables	(3,600)	–
(Gain) loss on disposal of subsidiaries	(2,974)	186

Notes:

1. Pursuant to Guo Fa [2000] No. 18 issued by the State Council, the Company is subject to value-added tax ("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. Included in subsidy income was the VAT refund with an amount of approximately RMB1,443,000 (2007: RMB1,202,000). VAT refund is recorded as income upon receipt.
2. Government grants represented the amount received in the current year towards certain research and development activities.

13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

14. LOSS PER SHARE

The calculations of the basic loss per share are based on Group's loss attributable to the ordinary equity holders of the Company of approximately RMB7,356,000 (2007: RMB12,856,000) and on the weighted average of 340,507,000 (2007: 339,577,000) shares in issue during the year.

No diluted loss per share has been presented as there were no diluting events existed during the two years ended 31 December 2008.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
At 1 January 2007	1,492	3,706	2,956	18,420	26,574
Additions	–	115	–	3,233	3,348
Disposals	(1,492)	–	–	(225)	(1,717)
Disposal of subsidiaries	–	–	(320)	(3,749)	(4,069)
At 31 December 2007	–	3,821	2,636	17,679	24,136
Additions	–	30	–	1,211	1,241
Disposals	–	–	(259)	(792)	(1,051)
Disposals of subsidiaries	–	(622)	(231)	(2,493)	(3,346)
At 31 December 2008	–	3,229	2,146	15,605	20,980
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	66	3,223	1,435	8,702	13,426
Provided for the year	60	331	297	2,702	3,390
Impairment loss recognised	–	–	–	583	583
Eliminated on disposals	(126)	–	–	(133)	(259)
Eliminated on disposal of subsidiaries	–	–	(226)	(2,911)	(3,137)
At 31 December 2007	–	3,554	1,506	8,943	14,003
Provided for the year	–	178	245	2,497	2,920
Eliminated on disposals	–	–	(125)	(480)	(605)
Eliminated on disposal of subsidiaries	–	(503)	(172)	(948)	(1,623)
At 31 December 2008	–	3,229	1,454	10,012	14,695
CARRYING VALUES					
At 31 December 2008	–	–	692	5,593	6,285
At 31 December 2007	–	267	1,130	8,736	10,133

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

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

During the year ended 31 December 2007, the directors conducted a review of the Group's office furniture, fixtures and other equipment and determined that a number of those assets were impaired due to physical damage. Accordingly, impairment losses of approximately RMB583,000 had been recognised in respect of office furniture, fixtures and other equipment in that year, which were used in the Group's telecommunication value-added services segment.

16. INTANGIBLE ASSETS

	Patents RMB'000	Computer software RMB'000	Self- developed software RMB'000	Total RMB'000
COST				
At 1 January 2007	–	17,390	11,360	28,750
Additions	18	1,820	–	1,838
At 31 December 2007	18	19,210	11,360	30,588
Additions	250	50	–	300
Disposal of subsidiaries	(18)	(6,986)	–	(7,004)
At 31 December 2008	250	12,274	11,360	23,884
AMORTISATION AND IMPAIRMENT				
At 1 January 2007	–	10,147	9,467	19,614
Impairment loss recognised	–	337	–	337
Provided for the year	1	1,944	1,893	3,838
At 31 December 2007	1	12,428	11,360	23,789
Provided for the year	14	1,533	–	1,547
Eliminated on disposal of subsidiaries	(2)	(1,767)	–	(1,769)
At 31 December 2008	13	12,194	11,360	23,567
CARRYING VALUES				
At 31 December 2008	237	80	–	317
At 31 December 2007	17	6,782	–	6,799

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

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

During the year ended 31 December 2007, the directors conducted a review of the Group's intangible assets and impairment was made after valuation has been conducted by 浙江中誠健資產評估有限公司, a qualified valuer not connected with the Group, for the purpose of assessing the recoverable amounts. Accordingly, an impairment loss of approximately RMB337,000 had been recognised.

17. GOODWILL

	2008 RMB'000
COST	
At 1 January 2007	5,485
Released upon disposal of subsidiaries (<i>Note 29</i>)	(2,001)
At 31 December 2007	3,484
Released upon disposal of subsidiaries (<i>Note 29</i>)	(2,528)
At 31 December 2008	956

For the purpose of impairment testing, goodwill arising from the acquisition of subsidiaries have been allocated to cash generating units (the “CGUs”) in the provision of telecommunication value-added services segment. During the year ended 31 December 2008, 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 summarised 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 13.88%. Cash flow projections during the budget period are based on the budgeted sales, expected gross margins and the general price inflation which affects general expenses during the budget period. Budgeted sales have been estimated for the first five years with annual growth rates ranging from 5.6% to 26.7% and for the period beyond the fifth year using an annual growth rate of 5.1%. 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.

18. INTERESTS IN ASSOCIATES

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	–	2,500
Share of post-acquisition results and reserves, net of dividends received	–	(279)
	–	2,221

On 30 September 2008 and 5 June 2008, the Group completed the disposal of its entire interest in Guangzhou Lande Information and Technology Company Limited (“廣東蘭德科技發展有限公司”) (“廣東蘭德”) and 湖州天運信息技術有限公司 (“湖州天運”) respectively. The net proceeds of the disposals amounted to approximately RMB710,000 and RMB500,000 and the Group’s share of the interests on 廣東蘭德 and 湖州天運 were RMB693,000 and RMB1,149,000 as at disposal date, including the Groups share of results, net of tax, loss of approximately RMB30,000 and RMB349,000 for 廣東蘭德 and 湖州天運 respectively.

On 28 August 2007 and 13 September 2007, the Group completed the disposal of its entire interests in 上海海港通信技術有限公司 (“上海海港”) and 杭州天港信息技術有限公司 (“杭州天港”) respectively. The net proceeds of the disposal amounted approximate to RMB6,500,000 and RMB75,000 and the Group’s share of the interests in 上海海港 and 杭州天港 amounted approximate to RMB5,000,000 and zero as at disposal date, including the Group’s share of results, net of tax, profit of approximately RMB183,000 and loss of RMB40,000 for 上海海港 and 杭州天港 respectively.

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Total assets	–	6,269
Total liabilities	–	(1,466)
Net assets	<u>–</u>	<u>4,803</u>
Group's share of net assets of associates	<u>–</u>	<u>2,221</u>
Revenue	<u>–</u>	<u>12,271</u>
(Loss) profit for the period/year	<u>(772)</u>	<u>1,878</u>
Group's share of results of associates for the period/year	<u>(379)</u>	<u>901</u>

19. INVENTORIES

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Computer software and hardware	<u>–</u>	<u>505</u>

During the year, certain impaired inventories were sold at gross profit. As a result, a reversal of write-down of inventories of approximately RMB2,404,000 (2007: Nil) has been recognised and included in consolidated income statement for the year ended 31 December 2008.

20. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	8,650	10,757
Less: progress billings	<u>(7,301)</u>	<u>(10,757)</u>
	<u>1,349</u>	<u>–</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	<u>1,349</u>	<u>–</u>

At 31 December 2008, there were no retentions held by customers for contract work (2007: Nil).

21. TRADE RECEIVABLES

Trade receivables consisted of:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Trade receivables	56,156	48,184
Less: Impairment losses	<u>(16,395)</u>	<u>(12,999)</u>
	<u>39,761</u>	<u>35,185</u>

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Less than one year	38,901	34,086
Over one year but less than two years	<u>860</u>	<u>1,099</u>
	<u>39,761</u>	<u>35,185</u>

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

Movement in the impairment loss of trade receivables:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Balance at beginning of the year	12,999	11,193
Impairment loss recognised during the year	3,720	1,913
Amounts written off as uncollectible	(324)	–
Eliminated on disposal of subsidiaries	<u>–</u>	<u>(107)</u>
Balance at end of the year	<u>16,395</u>	<u>12,999</u>

22. PREPAYMENTS AND OTHER RECEIVABLES

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Prepayment to suppliers	8,324	11,314
Advance to employees	5,672	6,562
Other receivables	<u>69,308</u>	<u>112,632</u>
	83,304	130,508
Less: Accumulated impairment	<u>(26,059)</u>	<u>(26,041)</u>
	<u>57,245</u>	<u>104,467</u>

Movement in the impairment loss of other receivables:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Balance at beginning of the year	26,041	18,759
Impairment loss recognised during the year	3,618	7,282
Amounts recovered during the year	(3,600)	–
	<u>26,059</u>	<u>26,041</u>
Balance at the end of the year	<u><u>26,059</u></u>	<u><u>26,041</u></u>

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

Included in the impairment loss are individually impaired other receivables with an aggregate balance of RMB26,059,000 (2007: RMB26,041,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

23. BANK BALANCES AND CASH

Bank balances and bank deposits carried interest at average market rate of 0.72% per annum (2007: 0.72%).

24. TRADE AND OTHER PAYABLES

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Trade payables	6,160	2,300
Other payables and accruals	22,858	69,534
	<u>29,018</u>	<u>71,834</u>
	<u><u>29,018</u></u>	<u><u>71,834</u></u>

Aging analysis of the trade payables is as follows:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Less than one year	5,797	1,847
Over one year but less than two years	303	154
Over two years but less than three years	5	299
More than three years	55	–
	<u>6,160</u>	<u>2,300</u>
	<u><u>6,160</u></u>	<u><u>2,300</u></u>

Included in other payables as at 31 December 2007 was an amount of approximately RMB6,279,000 received in August 2007 from a third party for the subscription of 16,969,170 domestic shares of the Company at an issue price of RMB0.37 per share. The application for subscription had been approved by the Board of Directors of the Company. According to the relevant rules and regulations in the PRC, the subscription of the Company's domestic shares needed to be approved by relevant government authority before the shares can be legally allotted to the subscriber. Pursuant to the approval granted by the Ministry of Commerce dated 20 May 2008 and the business license dated 11 December 2008, the capital increase was completed on 11 December 2008 and the amount of approximately RMB1,697,000 and RMB4,582,000 had been credited to paid-in capital and share premium respectively.

25. AMOUNT DUE TO A DIRECTOR

As at 31 December 2007, the amount was unsecured, interest-free and repayable on demand. The amount was fully settled during the year ended 31 December 2008.

26. PAID-IN CAPITAL

	Number of shares		Amount	
	2008	2007	2008	2007
	'000	'000	RMB'000	RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.1 each				
At 1 January	227,452	227,452	22,745	22,745
Increase in paid-in capital (<i>Note</i>)	16,969	–	1,697	–
At 31 December	244,421	227,452	24,442	22,745
Overseas public shares (“H” shares) with par value of RMB0.1 each	112,125	112,125	11,213	11,213
At 31 December	356,546	339,577	35,655	33,958

Note: On 11 December 2008, pursuant to a capital increase and share subscription agreement with an independent third party, the Company increased its registered capital from RMB33,957,700 to RMB35,654,617 and allotted and issued 16,969,170 domestic shares of RMB0.1 each in the Company at a price of RMB0.37 per share.

27. RESERVES**(a) Basis of appropriations to reserves**

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

(b) Statutory surplus reserve

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

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

28. UNPROVIDED DEFERRED TAX

The Group has unused tax losses amounted to RMB24,353,000 (2007: RMB21,634,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses as it is not probable that taxable profit will be available against which the tax losses can be utilised. The unrecognised tax losses will expire in three year's time.

29. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2008, the Group disposed of its entire equity interests in 杭州大篷車影視傳播有限公司 and Zhejiang Tianxin Science and Technology Development Company Limited (“浙江天信科技發展有限公司”) and its subsidiary, 杭州天鼎資訊技術有限公司 to independent third parties, at an aggregate consideration of RMB14,700,000. The net assets of these subsidiaries at the respectively dates of disposal were as follows:

	2008
	Total
	<i>RMB'000</i>
Net assets disposed of:	
Plant and equipment	1,723
Intangible assets	5,235
Inventories	510
Trade receivables	15,672
Prepayments and other receivables	3,843
Bank balances and cash	3,444
Trade and other payables	(18,561)
Minority interests	(2,668)
	9,198
Attributable goodwill	2,528
	11,726
Gain on disposal	2,974
Total consideration	14,700
Satisfied by:	
Cash	14,700
Net cash inflow arising on disposal:	
Cash consideration	14,700
Bank balances and cash disposed of	(3,444)
	11,256

During the year ended 31 December 2008, the disposed subsidiaries contributed profits of approximately RMB3,412,000 (2007: RMB2,494,000) to the Group, contributed net operating cash outflow of RMB1,312,000 (2007: cash inflow of RMB1,245,000), received approximately RMB1,203,000 (2007: cash outflow of RMB3,712,000) from investing activities and received approximately RMB1,737,000 (2007: RMB3,038,000) in respect of financing activities.

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

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

During the year ended 31 December 2007, the disposed subsidiaries contributed to approximately RMB1,618,000 to the Group's loss, contributed net operating cash flow of RMB1,230,000, received approximately RMB41,000 from investing activities and paid approximately RMB3,083,000 in respect of financing activities.

30. CONTINGENT LIABILITIES

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

31. OPERATING LEASE COMMITMENTS**The Group as lessee**

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

The total future minimum lease payments under non-cancellable operating leases are falling due as follows:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Within one year	1,651	1,110
In the second to fifth year inclusive	2,400	–
	<u>4,051</u>	<u>1,110</u>

32. CAPITAL COMMITMENTS

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided for in the consolidated financial statements	<u>1,491</u>	<u>–</u>

33. RELATED AND CONNECTED PARTY TRANSACTIONS**(a) Balances with related parties**

Amounts due from (to) related parties included in prepayments and other receivable (other payables) as detailed in notes 22 and 24 respectively are set out below:

Name of related party	Relationship	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Insigma Technology Co. Ltd.	A substantial shareholder of the Company	(15,885)	(21,884)
浙江大學快威科技集團有限公司	Controlled by the substantial shareholder of the Company	2,840	10,720
Zheda Insigma Group Co. Ltd. (浙江浙大網新集團有限公司)	Common controlled by a director of the Company and a shareholder of substantial shareholder of the Company	–	(9,460)
上海艾孚生信息科技有限公司	Controlled by a director of the Company	1,400	15,495
杭州賽爾通信設備有限公司	Controlled by a director of the Company	459	1,394
杭州奧通信息技術有限公司	Controlled by a minority shareholder	8,725	–
Minority shareholders		<u>3,426</u>	<u>–</u>

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

As at 31 December 2007, the amounts due from associates were unsecured, interest-free and were fully settled during the year ended 31 December 2008.

- (b) During the year ended 31 December 2008, the Company disposed of 9% equity interests in, Zhejiang Lande Congheng Network Service Company Limited (“Congheng”) to an existing minority shareholder of Congheng at a consideration of RMB700,000. A gain on disposal of approximately RMB149,000 was credited to the consolidated income statement.

(c) **Compensation of key management personnel**

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Short-term benefits	877	732
Post-employment benefits	97	92
	<u>974</u>	<u>824</u>

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

(d) **Cross guarantee arrangements**

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

Parties involved in such arrangements are summarised as follows:

Name of party	Relationship with the Company	Nature of transactions	Maximum amount of guarantee <i>RMB'000</i>
Zheda Insigma Group Co. Ltd. (浙江浙大網新集團有限公司)	Common controlled by a director of the Company and a shareholder of substantial shareholder of the Company	Providing guarantee on the Company's banking facilities	100,000
Zhejiang University Innovation Tuling Information Technology Company Limited (浙江浙大網新圖靈信息科技有限公司)	Company controlled by a director of the Company	The Company providing guarantee on banking facilities	50,000
Zheda Innovation Q Ware Technology Co. Ltd. (浙江浙大網新快威科技有限公司)	Company controlled by directors of the Company	The Company providing guarantee on banking facilities	30,000

As at 31 December 2008 and 2007, none of the loan facilities guaranteed by the Company have been utilised.

34. RETIREMENT BENEFIT SCHEMES

The employees of the Group are required to participate in a central pension scheme operated by the local municipal governments. The companies in the Group are required to contribute 19% (2007: 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 RMB3,512,000 (2007: RMB3,594,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2008 are as follows:

Name	Place of establishment/ operations	Issued and fully paid registered capital	Proportion of ownership interest held by Company		Principal activities
			Directly	Indirectly	
Chengdu Lande E & I Technology Company Limited 成都蘭德電子信息技術有限公司	PRC	RMB1,000,000	55%	–	Provision of telecommunication related services
Hangzhou Trust Communication Service Company Limited 杭州群思特通信服務有限公司	PRC	RMB1,000,000	55%	–	Provision of telecommunication related services
Zhejiang 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
Congheng 浙江蘭德縱橫網絡技術有限公司	PRC	RMB5,000,000	51%	–	Provision of telecommunication solutions and other related services, and trading of hardware and computer software
浙江蘭創通信有限公司	PRC	RMB5,000,000	85%	–	Provision of telecommunication related services
Inhealth Technology Company Limited 浙江浙大網新思創健康科技有限公司	PRC	RMB12,500,000	–	54%	Not yet commenced business
杭州英納特信息科技有限公司	PRC	RMB2,000,000	75%	–	Provision of internet image packaging

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.

36. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year's presentation.

3. MANAGEMENT DISCUSSION AND ANALYSIS

(a) Review of operating results for the year

For the year ended 31 December 2008, the consolidated turnover of the Group was approximately RMB121,547,000, representing an decrease of approximately RMB9,895,000, or approximately 7.53% as compared with that of 2007.

The net loss attributable to equity holders of the Company for the year ended 31 December 2008 was approximately RMB7,356,000, comparing to the net loss attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB12,856,000.

The main reasons for the results for the year are:

- (1) during the year, owing to the restructuring and business adjustment of major telecom operators, the external operating environment of the Company was changed and thus affected the Company's business; and
- (2) during the year, the Company increased investment in research and development which had a direct impact on the results for this year.

(b) Product and business development

During the year under review, the Group has made tremendous efforts on research of new products and development of new businesses, with a view to lay a solid foundation for sustainable growth of the Group. Leveraging on its strong connection with the operators, the Group conducted in-depth research on decoding of information data and thus developed correlated product of precision market system ("PMS"), thereby providing a large number of enterprises with the precision market platform. The Group also conducted research and development on new products including enterprise TV, menhutong (門戶通) and real-time messengers (實時通), to help enterprises shape their brands and expand their businesses through the internet.

During the year under review, the Group mainly focused on value-added communication businesses, application businesses and system integration businesses. As for value-added businesses, a number of products based on the Number 114 Bai Shi Tong service provided by China Telecom, such as enterprise Bai Shi Tong alliance, enterprise SMS business card, personal communication assistant, map business card, missed call notification, 114 business information, industrial and commercial information platform and Zhejiang Ruyi Quanquan, were comprehensively launched in Zhejiang Province and gradually expanding to adjacent provinces where some have even commenced operations. As for application businesses, the Group mainly provided management information support as well as development and system maintenance for related software to telecommunications operator. In addition, we also provide purchase, installation and maintenance services for system information project and system networking products.

(c) Investment and cooperation

During the year, for the purpose of business restructuring, the Group disposed of its 78% equity interests in 浙江天信科技發展有限公司, the entire equity interests in 杭州大篷車影視傳播有限公司 and 9% equity interests in Zhejiang Lande Congheng Network Service Company Limited. Meanwhile, the Group also established 杭州英納特信息科技有限公司 for the development of enterprise TV Station business.

(d) Employees information

As at 31 December 2008, the Group had approximately 420 (2007: 370) employees in total. The total staff costs of the Group for the year amounted to approximately RMB20,886,000 (2007: RMB14,319,000).

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 and 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

As at the close of business on 30 April 2009, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Enlarged Group had bills payables of approximately RMB6,000,000.

As at the close of business on 30 April 2009, the Group had no bills payables.

Security and guarantees

As at the close of business on 30 April 2009, the Enlarged Group's bills payables were secured by the pledged bank deposits of approximately RMB3,600,000.

As at the close of business on 30 April 2009, the Group had no pledge of assets.

Commitment

As at the close of business on 30 April 2009, the Enlarged Group and the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately RMB1,705,000 and RMB1,289,000 respectively.

Contingent liabilities

As at the close of business on 30 April 2009, the Enlarged Group acted as the guarantor for an external borrowing of approximately RMB1,000,000 made by a third party, which will be expired within two years of the settlement date of such borrowing.

In addition, the Enlarged Group and the Group have entered into a series of agreements, with three 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 provide corporate guarantee to banks with respect to the loan facilities granted to the Company of a maximum amount of RMB100,000,000. As at the close of business on 30 April 2009, none of these loan facilities guaranteed by the Company have been utilised.

5. DISCLAIMER

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group and the Group did not have outstanding as at the close of business on 30 April 2009 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

6. WORKING CAPITAL**For the purpose of Zongheng Disposal (31%)**

The Directors, after due and careful enquiry, are of the opinion that, taking into account the internally generated funds and the net proceeds from Zongheng Disposal (31%), the Group has sufficient working capital for its present requirements in next twelve months from the date of this circular.

For the purpose of Hangzhou Huaguang Acquisition

The Directors, after due and careful enquiry, are of the opinion that, taking into account the internally generated funds and the present available banking facilities of the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements in next twelve months from the date of this circular.



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

30 June 2009

The Directors
Zheda Lande Scitech Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Hangzhou Huaguang Computer Engineering Company Limited* 杭州華光計算機工程有限公司 (the “Hangzhou Huaguang”) and its subsidiary (hereinafter collectively referred to as the “Hangzhou Huaguang Group”) for each of the three years ended 31 December 2008 (the “Relevant Periods”) for inclusion in the circular of Zheda Lande Scitech Limited (the “Company”) dated 30 June 2009 (the “Circular”) in connection with the proposed acquisition of entire equity interest in Hangzhou Huaguang (the “Proposed Acquisition”).

Hangzhou Huaguang was established with limited liability in the People’s Republic of China (the “PRC”) on 11 November 2000 with paid-in capital of RMB10,000,000. The address of the registered office and the principal place of business of Hangzhou Huaguang is at Floor 3, Block 14, 30 Wantang Road, Xihu District, Hangzhou.

Hangzhou Huaguang is principally engaged in the business of technology development and services, computer software development, internet engineering and sales of computer products in the PRC. As at the date of this report, Hangzhou Huaguang has the following subsidiary:

Name of subsidiary	Place and date of establishment	Registered capital	Proportion of equity interest held directly	Principal activities
Hangzhou Huaguang Software Company Limited* 杭州華光軟件有限公司 (The “Software Company”)	The PRC 1 July 1998	RMB500,000	70%	Sales of computer products and provisions of computer software development services in the PRC

* English translation of company name is for identification purpose only

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

The Software Company is a domestic company established in the PRC. Hangzhou Huaguang Group adopt 31 December as its financial year end date.

The statutory financial statements of the Hangzhou Huaguang Group for the Relevant Periods have been prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by the following certified public accountants registered in the PRC:

	Year ended 31 December		
	2006	2007	2008
Hangzhou Huaguang	浙江中喜 會計師事務所 有限公司	浙江天惠 會計師事務所 有限責任公司	浙江天惠 會計師事務所 有限責任公司
The Software Company	浙江中喜 會計師事務所 有限公司	浙江天惠 會計師事務所 有限責任公司	浙江天惠 會計師事務所 有限責任公司

For the purpose of this report, the directors of Hangzhou Huaguang have prepared the consolidated financial statements of the Hangzhou Huaguang Group for the Relevant Periods in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the “IASB”) (the “Underlying Financial Statements”).

We have, for the purpose of this report, performed appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have examined the Underlying Financial Statements and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. No adjustments have been made to the Underlying Financial Statements in the preparation of our report for the inclusion in the Circular.

The directors of Hangzhou Huaguang are responsible for the preparation of the Underlying Financial Statements. 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 and to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

OPINION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the consolidated results and consolidated cash flows of the Hangzhou Huaguang Group for each of the Relevant Periods and of the state of affairs of the Hangzhou Huaguang Group and Hangzhou Huaguang as at 31 December 2006, 2007 and 2008.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	<i>NOTES</i>	Year ended 31 December		
		2006	2007	2008
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	8	116,837	89,020	77,673
Cost of sales		<u>(113,728)</u>	<u>(86,034)</u>	<u>(78,287)</u>
Gross profit/(loss)		3,109	2,986	(614)
Other operating income	9	292	1,517	155
Selling and distribution expenses		(2,141)	(653)	(190)
Administrative expenses		(3,276)	(2,427)	(2,385)
Finance costs	10	<u>–</u>	<u>–</u>	<u>(116)</u>
(Loss)/profit before taxation	11	(2,016)	1,423	(3,150)
Taxation	12	<u>–</u>	<u>(301)</u>	<u>–</u>
(Loss)/profit for the year		<u><u>(2,016)</u></u>	<u><u>1,122</u></u>	<u><u>(3,150)</u></u>
Attributable to:				
Equity holders of Hangzhou Huaguang		(1,802)	1,106	(3,093)
Minority interests		<u>(214)</u>	<u>16</u>	<u>(57)</u>
		<u><u>(2,016)</u></u>	<u><u>1,122</u></u>	<u><u>(3,150)</u></u>

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

CONSOLIDATED BALANCE SHEETS

		As at 31 December		
		2006	2007	2008
	NOTES	RMB'000	RMB'000	RMB'000
Non-current asset				
Plant and equipment	14	537	376	259
Current assets				
Inventories	16	8,227	12,096	2,495
Amounts due from customers for contract work	17	217	–	–
Trade receivables	18	17,329	14,143	11,430
Prepayment, deposits and other receivables	19	3,069	2,863	3,818
Pledged bank deposits	20	4,981	2,739	4,630
Bank balances and cash	21	2,607	1,450	4,794
		36,430	33,291	27,167
Current liabilities				
Trade and bills payables	22	18,875	14,463	9,775
Advances from customers		2,225	3,235	1,019
Accruals and other payables		1,745	1,143	2,369
Amount due to a director	23	600	41	–
Tax payable		250	391	319
Bank borrowings	24	–	–	2,700
		23,695	19,273	16,182
Net current assets		12,735	14,018	10,985
Net assets		13,272	14,394	11,244
Capital and reserves				
Paid-in capital	25	10,000	10,000	10,000
Reserves	26	2,587	3,693	600
Equity attributable to equity holders of Hangzhou Huaguang		12,587	13,693	10,600
Minority interests		685	701	644
		13,272	14,394	11,244

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

BALANCE SHEETS

		As at 31 December		
		2006	2007	2008
	NOTES	RMB'000	RMB'000	RMB'000
Non-current assets				
Plant and equipment	14	421	305	199
Investment in a subsidiary	15	420	420	420
		<u>841</u>	<u>725</u>	<u>619</u>
Current assets				
Inventories	16	7,610	11,661	2,124
Trade receivables	18	16,993	13,078	11,430
Prepayment, deposits and other receivables	19	2,873	2,749	3,745
Pledged bank deposits	20	4,981	2,739	4,630
Bank balances	21	1,521	406	2,928
		<u>33,978</u>	<u>30,633</u>	<u>24,857</u>
Current liabilities				
Trade and bills payables	22	18,875	14,313	9,775
Advances from customers		2,200	3,210	1,013
Accruals and other payables		1,597	996	2,227
Amount due to a director	23	600	41	–
Tax payable		128	295	236
Bank borrowings	24	–	–	2,700
		<u>23,400</u>	<u>18,855</u>	<u>15,951</u>
Net current assets		<u>10,578</u>	<u>11,778</u>	<u>8,906</u>
Net assets		<u>11,419</u>	<u>12,503</u>	<u>9,525</u>
Capital and reserves				
Paid-in capital	25	10,000	10,000	10,000
Reserves	26	1,419	2,503	(475)
		<u>11,419</u>	<u>12,503</u>	<u>9,525</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of Hangzhou Huaguang					
	Paid-in capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>Note 26</i>	Retained earnings/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2006	10,000	567	3,822	14,389	899	15,288
Loss for the year, representing total recognised expenses for the year	–	–	(1,802)	(1,802)	(214)	(2,016)
Transfer	–	35	(35)	–	–	–
At 31 December 2006 and 1 January 2007	10,000	602	1,985	12,587	685	13,272
Profit for the year, representing total recognised income for the year	–	–	1,106	1,106	16	1,122
Transfer	–	16	(16)	–	–	–
At 31 December 2007 and 1 January 2008	10,000	618	3,075	13,693	701	14,394
Loss for the year, representing total recognised expenses for the year	–	–	(3,093)	(3,093)	(57)	(3,150)
At 31 December 2008	<u>10,000</u>	<u>618</u>	<u>(18)</u>	<u>10,600</u>	<u>644</u>	<u>11,244</u>

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
(Loss)/profit before taxation	(2,016)	1,423	(3,150)
Adjustments for:			
Bank interest income	(42)	(73)	(75)
Finance costs	—	—	116
Plant and equipment written off	—	5	12
Depreciation of plant and equipment	173	163	141
Impairment loss on trade receivables	1,072	159	332
Impairment loss on deposits and other receivables	80	26	167
Allowance for obsolete inventories	—	—	2,093
Operating cash flows before movements in working capital	(733)	1,703	(364)
Decrease/(increase) in inventories	2,022	(3,869)	7,508
Decrease in amounts due from customers for contract work	648	217	—
(Increase)/decrease in trade receivables	(7,475)	3,027	2,381
Decrease/(increase) in prepayment, deposits and other receivables	18,441	180	(1,122)
Decrease in trade and bills payables	(5,533)	(4,412)	(4,688)
Increase/(decrease) in advances from customers	993	1,010	(2,216)
(Decrease)/increase in accruals and other payables	(8,263)	(602)	1,226
Cash flow from/(used in) operating activities	100	(2,746)	2,725
PRC Enterprise Income Tax paid	(83)	(160)	(72)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	17	(2,906)	2,653
INVESTING ACTIVITIES			
(Increase)/decrease in pledged bank deposits	(4,178)	2,242	(1,891)
Purchase of plant and equipment	(20)	(7)	(36)
Bank interest received	42	73	75
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(4,156)	2,308	(1,852)
FINANCING ACTIVITIES			
New bank borrowings raised	—	—	2,700
Interest paid	—	—	(116)
Advances from/(repayment to) a director	600	(559)	(41)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	600	(559)	2,543
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,539)	(1,157)	3,344
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	6,146	2,607	1,450
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	2,607	1,450	4,794

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATION INFORMATION

Hangzhou Huaguang was established with limited liability in the PRC on 11 November 2000 with paid-in capital of RMB10,000,000. The address of the registered office and the principal place of business of Hangzhou Huaguang is at Floor 3, Block 14, 30 Wantang Road, Xihu District, Hangzhou.

Hangzhou Huaguang is principally engaged in the business of technology development and services, computer software development, internet engineering and sales of computer products in the PRC. The principal activities of its subsidiary are set out in Note 15.

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

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

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Hangzhou Huaguang Group has consistently applied all of the International Accounting Standards ("IASs"), IFRSs, amendments and interpretations ("INTs") (herein collectively referred to as "New IFRSs") issued by the IASB, which are effective for the accounting year beginning on 1 January 2008.

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

IFRSs (Amendments)	Improvement to IFRSs ¹
IFRSs (Amendments)	Improvement to IFRSs 2009 ⁸
IAS 1(Revised)	Presentation of Financial Statements ²
IAS 23 (Revised)	Borrowing Costs ²
IAS 27 (Revised)	Consolidated and Separate Financial Statements ³
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
IAS 39 (Amendment)	Eligible Hedged Item ³
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards ³
IFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
IFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ²
IFRS 3 (Revised)	Business Combinations ³
IFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments ²
IFRS 8	Operating Segments ²
IFRIC-INT 9 and HKAS 39 (Amendments)	Embedded Derivatives ⁶
IFRIC-INT 13	Customer Loyalty Programmes ⁴
IFRIC-INT 15	Agreements for the Construction of Real Estate ²
IFRIC-INT 16	Hedges of a Net Investment in a Foreign Operation ⁵
IFRIC-INT 17	Distributions of Non-cash Assets to Owners ³
IFRIC-INT 18	Transfers of Assets from Customers ⁷

¹ Effective for annual periods beginning on or after 1 January 2009, except the amendments to IFRS 5 which are effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 July 2009.

⁴ Effective for annual periods beginning on or after 1 July 2008.

⁵ Effective for annual periods beginning on or after 1 October 2008.

- ⁶ Effective for annual periods ending on or after 30 June 2009.
- ⁷ Effective for transfers of assets from customers received on or after 1 July 2009.
- ⁸ Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of Hangzhou Huaguang anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Hangzhou Huaguang Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. These accounting policies have been consistently applied throughout the Relevant Periods.

The Financial Information has been prepared in accordance with IFRSs issued by the IASB and the accounting policies have been consistently applied to the Relevant Periods and are materially consistent with the accounting policies adopted by the Company. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of Hangzhou Huaguang and entity controlled by Hangzhou Huaguang (its subsidiary). Control is achieved where Hangzhou Huaguang has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with those used by other member of the Hangzhou Huaguang Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Hangzhou Huaguang Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination 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 Hangzhou Huaguang Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investment in a subsidiary

In Hangzhou Huaguang's balance sheet, the investment in a subsidiary is stated at cost less impairment loss. The results of the subsidiary are accounted for by Hangzhou Huaguang on the basis of dividends received and receivable.

Revenue recognition

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

Sales of goods are recognised when the goods are delivered and title has passed.

Revenue from provision of computer software development is recognised by reference to the stage of completion of development.

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

Plant and equipment

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

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

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statements in the Relevant Periods in which the item is derecognised.

Impairment loss on tangible assets

At each balance sheet date, the Hangzhou Huaguang Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out method.

Contract for software development

Contract for software development is a contract specifically negotiated for the implementation of a software or a combination of software.

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue and cost are recognised over by reference to the stage of completion of contract at the respective balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Hangzhou Huaguang Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity in a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Hangzhou Huaguang Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade receivables'.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheets when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Hangzhou Huaguang Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

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

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

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Hangzhou Huaguang Group after deducting all of its liabilities. The Hangzhou Huaguang Group's financial liabilities are mainly other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and bills payables, accruals and other payables, amount due to a director and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Hangzhou Huaguang are recorded at the proceeds received, net of direct issue costs.

Derecognition

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

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

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 Hangzhou Huaguang Group as lessee

Rentals payable under operating leases are charged to profit for loss on a straight-line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statements in the period in which they are incurred.

Government grants

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.

Retirement benefit costs

Payments to state-managed retirement benefits scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Research and development expenditures

Expenditure on research and development activities is recognised as an expenditure in the period in which it is incurred.

Taxation

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

The tax currently payable is based on the results 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 income statement items that are never taxable or deductible. The Hangzhou Huaguang 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 is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 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 arising on investment in a subsidiary, except where the Hangzhou Huaguang 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 is calculated at the tax rates that are expected to apply in the period when 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. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Hangzhou Huaguang Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Hangzhou Huaguang Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

The following is the critical judgment, apart from those involving estimations, that the directors have made in the process of applying the Hangzhou Huaguang Group's accounting policies and that have the most significant effect on the amounts recognised in Financial Information.

Revenue recognition for software development

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Hangzhou Huaguang Group's management estimates the contract revenue, contract costs and foreseeable losses of development work based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in software development businesses, management reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses, where the actual contract revenue are less than expected or actual contract costs are more than expected, a material impairment loss may arise.

Key sources of estimation uncertainty

The following are 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.

Allowance for obsolete inventories

Management reviews the condition of the inventories of the Hangzhou Huaguang Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Hangzhou Huaguang Group carries out an inventory review at each balance sheet date and makes allowance for obsolete items. Management reassesses the estimation on each balance sheet date.

Estimated impairment of trade receivables and deposits and other receivables

Allowance for bad and doubtful debts is made based on an assessment of the recoverability of trade receivables and deposits and other receivables. The identification of impairment losses requires management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment losses/ reversal of impairment losses in the period in which such estimate has been changed.

5. CAPITAL RISK MANAGEMENT

The Hangzhou Huaguang Group and Hangzhou Huaguang manage its capital to ensure that group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Hangzhou Huaguang Group's and Hangzhou Huaguang's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Hangzhou Huaguang Group and Hangzhou Huaguang consist of debts, which includes bank borrowings, cash and cash equivalents and equity attributable to equity holders of Hangzhou Huaguang, comprising paid-in capital and reserves.

The Hangzhou Huaguang Group and Hangzhou Huaguang actively and regularly review and manage their capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Hangzhou Huaguang Group and Hangzhou Huaguang and capital efficiency, bank borrowings, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Hangzhou Huaguang Group and Hangzhou Huaguang's major financial instruments include trade receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, accruals and other payables, amount due to a director and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Hangzhou Huaguang Group and Hangzhou Huaguang are exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly the pledged bank deposits, bank balances and bank borrowings at prevailing market interest rates. Pledged bank deposits, bank balances and bank borrowings carried at variable rates expose the Hangzhou Huaguang Group and Hangzhou Huaguang to cash-flow interest rate risk. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below have been determined based on the exposure to interest rates for interest bearing pledged bank deposits, bank balances and floating-rate bank borrowings at the respective balance sheet dates. The analysis is prepared assuming the relevant assets and liabilities outstanding at the respective balance sheet dates were outstanding for that whole year.

1% sensitivity rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	Increase/ (decrease) in interest rates	Increase/ (decrease) in loss before taxation RMB'000	Increase/ (decrease) in profit before taxation RMB'000
The Hangzhou Huaguang Group			
For the year ended 31 December 2006	1% (1%)	(76) 76	— —
For the year ended 31 December 2007	1% (1%)	— —	42 (42)
For the year ended 31 December 2008	1% (1%)	(67) 67	— —
	Increase/ (decrease) in interest rates	Increase/ (decrease) in loss before taxation RMB'000	Increase/ (decrease) in profit before taxation RMB'000
Hangzhou Huaguang			
For the year ended 31 December 2006	1% (1%)	(65) 65	— —
For the year ended 31 December 2007	1% (1%)	— —	31 (31)
For the year ended 31 December 2008	1% (1%)	(49) 49	— —

Credit risk

At the respective balance sheet dates, the Hangzhou Huaguang Group and Hangzhou Huaguang's maximum exposure to credit risk, which will cause a financial loss to the Hangzhou Huaguang Group and Hangzhou Huaguang due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Hangzhou Huaguang Group and Hangzhou Huaguang is arising from:

- the carrying amount of the respective recognised financial assets as stated in the Financial Information; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Hangzhou Huaguang Group and Hangzhou Huaguang.

In order to minimise the credit risk, the Hangzhou Huaguang Group and Hangzhou Huaguang have granted financial guarantee to creditworthy third parties, requested deposits from new customers and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action taken to recover overdue debts. In addition, the Hangzhou Huaguang Group and Hangzhou Huaguang review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Hangzhou Huaguang consider the Hangzhou Huaguang Group and Hangzhou Huaguang's credit risk are significantly reduced.

The credit risk on liquid funds is limited because the counterparties are stated-owned banks with high credit standing. Other than concentration of credit risk on liquid funds which are deposited with several stated-owned banks with high credit ratings, the Hangzhou Huaguang Group and Hangzhou Huaguang do not have any other significant concentration of credit risk.

Liquidity risk

The board of directors of Hangzhou Huaguang has built an appropriate liquidity risk management framework for the management of the Hangzhou Huaguang Group's and Hangzhou Huaguang's short, medium and long-term funding and liquidity management requirements. The Hangzhou Huaguang Group and Hangzhou Huaguang manage liquidity risk by maintaining sufficient bank balances and bank borrowings. The Hangzhou Huaguang Group and Hangzhou Huaguang continuously monitor the forecast and actual cash flows and the maturity profiles of financial liabilities.

The maturity dates of all financial liabilities are within one year as at the respective balance sheet dates.

Fair values

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

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

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

7. FINANCIAL INSTRUMENTS

The categories of financial instruments of the Hangzhou Huaguang Group and Hangzhou Huaguang are summarised as follows:

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group			
Financial assets			
Loans and receivables (including cash and cash equivalents)	25,399	19,709	21,254
Financial liabilities			
Amortised cost	21,220	15,647	14,844
Hangzhou Huaguang			
Financial assets			
Loans and receivables (including cash and cash equivalents)	23,903	17,496	19,318
Financial liabilities			
Amortised cost	21,072	15,350	14,702

8. TURNOVER AND SEGMENTAL INFORMATION

Turnover comprises income from the provision of business of technology development and services, computer software development, internet engineering and sales of computer products, net of sales related taxes during the Relevant Periods.

All of the Hangzhou Huaguang Group's turnover is derived from the operation in the PRC, therefore, no geographical segment is presented.

No carrying amount of segment assets by geographical location of assets is disclosed as the Hangzhou Huaguang Group's assets are substantially located in the PRC. No geographical segment for other information is disclosed as capital additions are substantially in the PRC.

Business segments

For management purposes, the Hangzhou Huaguang Group is currently mainly organised into two operating divisions – sales of computer products and software development. These divisions are the basis on which the Hangzhou Huaguang Group reports its primary segment information.

Principal activities are as follows:

Computer products	–	Sales of computer products
Software development	–	Provision of business of technology development and services, computer software development, internet engineering

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

Segment information about these businesses is presented below.

Consolidated income statement for the year ended 31 December 2006

	Computer products <i>RMB'000</i>	Software development <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover			
External	115,274	1,563	116,837
Segment results	499	719	1,218
Unallocated corporate income			42
Unallocated corporate expenses			(3,276)
Finance costs			—
Loss before taxation			(2,016)
Taxation			—
Loss for the year			(2,016)
OTHER INFORMATION			
Capital additions	20	—	20
Depreciation of plant and equipment	173	—	173
Impairment loss on trade receivables	1,072	—	1,072
Impairment loss on deposits and other receivables	80	—	80

Consolidated balance sheet as at 31 December 2006

	Computer products <i>RMB'000</i>	Software development <i>RMB'000</i>	Total <i>RMB'000</i>
ASSETS			
Segment assets	29,151	228	29,379
Unallocated corporate assets			7,588
Total assets			36,967
LIABILITIES			
Segment liabilities	22,746	99	22,845
Unallocated corporate liabilities			850
Total liabilities			23,695

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

Consolidated income statement for the year ended 31 December 2007

	Computer products <i>RMB'000</i>	Software development <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover			
External	85,720	3,300	89,020
Segment results	1,371	2,406	3,777
Unallocated corporate income			73
Unallocated corporate expenses			(2,427)
Finance costs			—
Profit before taxation			1,423
Taxation			(301)
Profit for the year			1,122
OTHER INFORMATION			
Capital additions	7	—	7
Depreciation of plant and equipment	163	—	163
Plant and equipment written off	5	—	5
Impairment loss on trade receivables	159	—	159
Impairment loss on deposits and other receivables	26	—	26

Consolidated balance sheet as at 31 December 2007

	Computer products <i>RMB'000</i>	Software development <i>RMB'000</i>	Total <i>RMB'000</i>
ASSETS			
Segment assets	28,323	1,155	29,478
Unallocated corporate assets			4,189
Total assets			33,667
LIABILITIES			
Segment liabilities	18,734	107	18,841
Unallocated corporate liabilities			432
Total liabilities			19,273

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

Consolidated income statement for the year ended 31 December 2008

	Computer products RMB'000	Software development RMB'000	Total RMB'000
Turnover			
External	72,061	5,612	77,673
Segment results	(2,182)	1,458	(724)
Unallocated corporate income			75
Unallocated corporate expenses			(2,385)
Finance costs			(116)
Loss before taxation			(3,150)
Taxation			—
Loss for the year			(3,150)
OTHER INFORMATION			
Capital additions	36	—	36
Depreciation of plant and equipment	141	—	141
Plant and equipment written off	12	—	12
Impairment loss on trade receivables	332	—	332
Impairment loss on deposits and other receivables	167	—	167
Allowance for obsolete inventories	2,093	—	2,093

Consolidated balance sheet as at 31 December 2008

	Computer products RMB'000	Software development RMB'000	Total RMB'000
ASSETS			
Segment assets	18,002	—	18,002
Unallocated corporate assets			9,424
Total assets			27,426
LIABILITIES			
Segment liabilities	12,880	283	13,163
Unallocated corporate liabilities			3,019
Total liabilities			16,182

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

9. OTHER OPERATING INCOME

	Year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Bank interest income	42	73	75
Government grants (<i>note</i>)	250	1,444	80
	<u>292</u>	<u>1,517</u>	<u>155</u>

Note:

The government grants recognised by the Hangzhou Huaguang Group are for encouraging business development of the high-technology computer software in the PRC.

10. FINANCE COSTS

	Year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within one year	—	—	116

11. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging:

	Year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Directors' remuneration (<i>Note 13</i>)	53	68	78
Other staff costs	394	505	400
Retirement benefits scheme contributions (<i>note</i>)	89	115	96
Total staff costs	<u>536</u>	<u>688</u>	<u>574</u>
Auditors' remuneration	8	18	25
Impairment loss on trade receivables	1,072	159	332
Impairment loss on deposits and other receivables	80	26	167
Operating lease rentals on office premises	395	439	391
Depreciation of plant and equipment	173	163	141
Plant and equipment written off	—	5	12
Allowance for obsolete inventories (included in cost of sales)	—	—	2,093
Research and development cost	1,094	2,338	4,234
Cost of inventories recognised	<u>112,634</u>	<u>83,696</u>	<u>71,960</u>

Note:

The employees of the Hangzhou Huaguang Group are members of a state-managed retirement benefits scheme in the PRC. The Hangzhou Huaguang Group is required to contribute a specific percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Hangzhou Huaguang Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme. No forfeited contributions are available during the Relevant Periods to reduce the contribution payable in the future years.

12. TAXATION

No provision for Hong Kong Profits Tax has been made as the Hangzhou Huaguang Group did not generate any assessable profits in Hong Kong during the Relevant Periods.

Taxation in the PRC is calculated at the rates of tax prevailing in the PRC.

The Hangzhou Huaguang Group was entitled to preferential PRC EIT rate of 15% during the two years ended 31 December 2006 and 2007 since it was the new and high technology companies. This had been filed with the local tax bureau as a record.

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the EIT rate for the Group was reduced from 33% to 25% from 1 January 2008.

The charge for the Relevant Periods can be reconciled to the (loss)/ profit before taxation per the consolidated income statements as follows:

	Year ended 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit before taxation	(2,016)	1,423	(3,150)
Applicable income tax rate	15%	15%	25%
Tax at applicable income tax rate	(302)	213	(788)
Tax effect of expenses that are not deductible in determining taxable profit	64	82	6
Tax effect of deferred tax assets not recognised	173	28	648
Tax effect of tax loss not recognised	65	—	142
Utilisation of tax loss previously not recognised	—	(22)	(8)
Tax charge for the years	—	301	—

The Hangzhou Huaguang Group had unused tax loss of RMB436,000, RMB287,000 and RMB824,000 as at 31 December 2006, 31 December 2007 and 31 December 2008 respectively. The tax loss of approximately RMB149,000 and RMB30,000 were utilised during the year ended 31 December 2007 and 2008 respectively.

The Hangzhou Huaguang Group had deductible temporary difference of RMB1,152,000, RMB1,337,000 and RMB3,929,000 as at 31 December 2006, 2007 and 2008 respectively. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is uncertain that taxable profit will be available against which the deductible temporary differences can be utilised.

13. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

(a) Directors' emoluments

The details of directors' remuneration of each director for the Relevant Periods are set out below:

For the year ended 31 December 2006

Name of directors	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:			
Luo An	20	10	30
Ding Tian	17	6	23
	<u>37</u>	<u>16</u>	<u>53</u>

For the year ended 31 December 2007

Name of directors	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:			
Luo An	29	13	42
Ding Tian	18	8	26
	<u>47</u>	<u>21</u>	<u>68</u>

For the year ended 31 December 2008

Name of directors	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:			
Luo An	36	15	51
Ding Tian	18	9	27
	<u>54</u>	<u>24</u>	<u>78</u>

The five highest paid employees

The five highest paid individuals for the Relevant Periods included two directors. Details of whose emoluments are included in the disclosure above. The emoluments of the remaining three individuals, which are individually below RMB1,000,000 for the Relevant Periods are as follows:

	Year ended 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and allowances	57	62	65
Retirement benefits scheme contributions	25	27	31
	<u>82</u>	<u>89</u>	<u>96</u>

During the Relevant Periods, no remuneration has been paid by the Hangzhou Huaguang Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Hangzhou Huaguang Group or as a compensation for loss of office. There was no arrangement under which the directors waived or agreed to waive any remuneration during the Relevant Periods.

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

14. PLANT AND EQUIPMENT

The Hangzhou Huaguang Group

	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST			
At 1 January 2006	598	692	1,290
Additions	20	–	20
Written off	(111)	–	(111)
At 31 December 2006 and 1 January 2007	507	692	1,199
Additions	7	–	7
Written off	(107)	–	(107)
At 31 December 2007 and 1 January 2008	407	692	1,099
Additions	36	–	36
Written off	(246)	–	(246)
At 31 December 2008	197	692	889
ACCUMULATED DEPRECIATION			
At 1 January 2006	331	269	600
Provided for the year	95	78	173
Written off	(111)	–	(111)
At 31 December 2006 and 1 January 2007	315	347	662
Provided for the year	85	78	163
Written off	(102)	–	(102)
At 31 December 2007 and 1 January 2008	298	425	723
Provided for the year	63	78	141
Written off	(234)	–	(234)
At 31 December 2008	127	503	630
CARRYING VALUES			
At 31 December 2006	192	345	537
At 31 December 2007	109	267	376
At 31 December 2008	70	189	259

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

Hangzhou Huaguang

	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST			
At 1 January 2006	368	491	859
Additions	11	–	11
Written off	(12)	–	(12)
	<u>367</u>	<u>491</u>	<u>858</u>
At 31 December 2006 and 1 January 2007	367	491	858
Additions	7	–	7
Written off	(107)	–	(107)
	<u>267</u>	<u>491</u>	<u>758</u>
At 31 December 2007 and 1 January 2008	267	491	758
Additions	1	–	1
Written off	(130)	–	(130)
	<u>138</u>	<u>491</u>	<u>629</u>
At 31 December 2008	138	491	629
ACCUMULATED DEPRECIATION			
At 1 January 2006	178	142	320
Provided for the year	71	58	129
Written off	(12)	–	(12)
	<u>237</u>	<u>200</u>	<u>437</u>
At 31 December 2006 and 1 January 2007	237	200	437
Provided for the year	60	58	118
Written off	(102)	–	(102)
	<u>195</u>	<u>258</u>	<u>453</u>
At 31 December 2007 and 1 January 2008	195	258	453
Provided for the year	42	58	100
Written off	(123)	–	(123)
	<u>114</u>	<u>316</u>	<u>430</u>
At 31 December 2008	114	316	430
CARRYING VALUES			
At 31 December 2006	<u>130</u>	<u>291</u>	<u>421</u>
At 31 December 2007	<u>72</u>	<u>233</u>	<u>305</u>
At 31 December 2008	<u>24</u>	<u>175</u>	<u>199</u>

The above items of plant and equipment are depreciated on a straight-line basis over the estimated useful lives less their residual values as follows:

Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

15. INVESTMENT IN A SUBSIDIARY

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Unlisted investment, at cost	420	420	420

The details of the subsidiary are set out as follow:

Name of subsidiary	Place and date of establishment	Registered capital	Proportion of equity interest held directly	Principal activities
The Software Company	The PRC 1 July 1998	RMB500,000	70%	Sales of computer products and provision of computer software development services in the PRC

The subsidiary had not issued any debt securities during the Relevant Periods and at the end of the Relevant Periods.

16. INVENTORIES

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group			
Computer products	8,227	12,096	2,495
Hangzhou Huaguang			
Computer products	7,610	11,661	2,124

17. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group			
Contracts in progress at the balance sheet date:			
Contract costs incurred plus recognised profits			
less recognised losses to date	467	—	—
Less: Progress billings	(250)	—	—
	217	—	—
Analysed for reporting purposes as:			
Amounts due from customers for contract work	217	—	—

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

18. TRADE RECEIVABLES

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group			
Trade receivables	18,401	15,374	12,993
Less: impairment loss	(1,072)	(1,231)	(1,563)
	<u>17,329</u>	<u>14,143</u>	<u>11,430</u>

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Hangzhou Huaguang			
Trade receivables	17,849	14,093	12,568
Less: impairment loss	(856)	(1,015)	(1,138)
	<u>16,993</u>	<u>13,078</u>	<u>11,430</u>

The Hangzhou Huaguang Group allows a credit period of three months to the customers.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group			
0 – 3 months	16,508	12,011	8,727
4 – 6 months	147	313	69
7 – 12 months	674	1,553	2,634
Over 1 year	–	266	–
	<u>17,329</u>	<u>14,143</u>	<u>11,430</u>

Hangzhou Huaguang			
0 – 3 months	16,351	11,421	8,727
4 – 6 months	147	104	69
7 – 12 months	495	1,553	2,634
	<u>16,993</u>	<u>13,078</u>	<u>11,430</u>

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

At each of the balance sheet date, the Hangzhou Huaguang Group's and Hangzhou Huaguang's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment was recognised. The movement in the impairment loss on trade receivables is as follows:

	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
The Hangzhou Huaguang Group			
At 1 January	–	1,072	1,231
Impairment loss recognised during the year	1,072	159	332
	<u>1,072</u>	<u>159</u>	<u>332</u>
At 31 December	<u>1,072</u>	<u>1,231</u>	<u>1,563</u>
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
Hangzhou Huaguang			
At 1 January	–	856	1,015
Impairment loss recognised during the year	856	159	123
	<u>856</u>	<u>159</u>	<u>123</u>
At 31 December	<u>856</u>	<u>1,015</u>	<u>1,138</u>

The aging analysis of trade receivables that are past due but not impaired as follow:

	As at 31 December		
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
The Hangzhou Huaguang Group			
Less than 3 months past due	147	313	69
4 – 6 months	227	1,228	1,984
7 – 12 months	447	482	650
Over 1 year	–	109	–
	<u>821</u>	<u>2,132</u>	<u>2,703</u>
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
Hangzhou Huaguang			
Less than 3 months past due	147	104	69
4 – 6 months	48	1,228	1,984
7 – 12 months	447	325	650
	<u>642</u>	<u>1,657</u>	<u>2,703</u>

Trade receivables that are neither past due nor impaired relate to a wide range of customers who has no recent history of default. Trade receivables that are past due but not impaired related to a wide range of customers for whom there was no recent history of default. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Hangzhou Huaguang Group and Hangzhou Huaguang do not hold any collateral over these balances.

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

19. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group			
Other receivables	555	1,458	550
Prepayment and deposits	2,594	1,511	3,541
Less: impairment loss	(80)	(106)	(273)
	<u>3,069</u>	<u>2,863</u>	<u>3,818</u>
Hangzhou Huaguang			
Other receivables	480	1,353	477
Prepayment and deposits	2,473	1,502	3,541
Less: impairment loss	(80)	(106)	(273)
	<u>2,873</u>	<u>2,749</u>	<u>3,745</u>

At each of the balance sheet date, the Hangzhou Huaguang Group's and Hangzhou Huaguang's deposits and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the aging analysis. The Hangzhou Huaguang Group and Hangzhou Huaguang do not hold any collateral over these balances. The movement in the impairment loss on the deposits and other receivables:

	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The Hangzhou Huaguang Group and Hangzhou Huaguang			
At 1 January	–	80	106
Impairment loss recognised during the year	<u>80</u>	<u>26</u>	<u>167</u>
At 31 December	<u>80</u>	<u>106</u>	<u>273</u>

20. PLEDGED BANK DEPOSITS

As at the respective balance sheet dates of the Relevant Periods, pledged bank deposits represent deposits pledged to secure the general banking facilities granted to the Hangzhou Huaguang Group. The pledged bank deposits will be released upon the settlement of relevant facilities.

The pledged bank deposits carry average floating interest rates at 1.80%, 3.33% and 1.71% per annum for the year ended 31 December 2006, 2007 and 2008 respectively.

APPENDIX II ACCOUNTANTS' REPORT ON HANGZHOU HUAGUANG

21. BANK BALANCES AND CASH

The Hangzhou Huaguang Group's and Hangzhou Huaguang's bank balances are held in stated-owned banks with high credit standing.

Cash at bank and short-term bank deposits with an original maturity of three months or less carry interest at prevailing market rate at 0.72%, 0.72% and 0.36% per annum respectively as at the respective balance sheet dates of the Relevant Periods.

22. TRADE AND BILL PAYABLES

The ageing analysis of trade and bill payables is as follows:

	As at 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
The Hangzhou Huaguang Group			
0 – 3 months	18,657	14,244	9,616
4 – 6 months	15	59	–
7 – 12 months	20	–	125
Over 1 year	183	160	34
	<u>18,875</u>	<u>14,463</u>	<u>9,775</u>
Hangzhou Huaguang			
0 – 3 months	18,657	14,094	9,616
4 – 6 months	15	59	–
7 – 12 months	20	–	125
Over 1 year	183	160	34
	<u>18,875</u>	<u>14,313</u>	<u>9,775</u>

23. AMOUNT DUE TO A DIRECTOR

The Hangzhou Huaguang Group and Hangzhou Huaguang

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

24. BANK BORROWINGS

The Hangzhou Huaguang Group and Hangzhou Huaguang

	As at 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings, at floating rate	—	—	2,700
Carrying amount repayable:			
Within one year	—	—	2,700

The bank borrowings of approximately RMB2,700,000 granted to the Hangzhou Huaguang Group as at 31 December 2008 are secured by the properties owned by Mr. Luo An and Ms. Zhang Lianghong, the shareholders of Hangzhou Huaguang.

The ranges of effective interest rate of the bank borrowings are as follows:

	As at 31 December		
	2006	2007	2008
Floating rate borrowings	—	—	5.64%-7.81%

25. PAID-IN CAPITAL

	As at 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered capital and paid-in capital	10,000	10,000	10,000

26. RESERVES

The Hangzhou Huaguang Group

Statutory surplus reserve

In accordance with the PRC Company Law and the Hangzhou Huaguang Group's articles of association, the Hangzhou Huaguang Group is required to allocate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC Companies ("PRC GAAP") and regulations applicable to the Hangzhou Huaguang Group, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Hangzhou Huaguang Group. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the registered capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Hangzhou Huaguang Group.

The Hangzhou Huaguang Group appropriated approximately RMB35,000 and RMB16,000 for the year ended 31 December 2006 and 2007 respectively to the statutory surplus reserve fund respectively, representing 10% of the Hangzhou Huaguang Group's profit after tax as determined in accordance with the PRC GAAP.

28. RELATED PARTY BALANCES AND TRANSACTIONS

- (a) Balances with related party

Amount due to a director is set out in Note 23.

- (b) The bank borrowings of approximately RMB2,700,000 granted to the Hangzhou Huaguang Group as at 31 December 2008 are secured by the properties owned by Mr. Luo An and Ms. Zhang Lianghong, the shareholders of Hangzhou Huaguang.

- (c) Compensation to key management personnel

The key management personnel of the Hangzhou Huaguang Group comprises all directors of Hangzhou Huaguang, details of their emoluments are disclosed in Note 13.

29. CONTINGENT LIABILITIES

	As at 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The Hangzhou Huaguang Group and Hangzhou Huaguang			
Outstanding guarantees	<u>–</u>	<u>–</u>	<u>1,000</u>

As at 31 December 2008, the Hangzhou Huaguang Group has acted as the guarantor for an external borrowing made by a third party, which will be expired within two years of the settlement date of such borrowing.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Hangzhou Huaguang and the Hangzhou Huaguang Group in respect of any period subsequent to 31 December 2008.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044
Hong Kong



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

30 June 2009

The Board of Directors
Zheda Lande Scitech Limited
1/F-3/F, Block C
108 Gu Cui Road
Hangzhou City
Zhejiang Province
The People's Republic of China

Dear Sirs,

We report on the unaudited pro forma financial information of Zheda Lande Scitech Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) set out in Appendix III of the circular dated 30 June 2009 (the “Circular”) in connection with the proposed acquisition of the entire equity interest in Hangzhou Huaguang Computer Engineering Company Limited (“Hangzhou Huaguang”) by the Company (“Proposed Acquisition”), which has been prepared by the directors of the Company (the “Directors”), for illustrative purpose only, to provide information about how the Proposed Acquisition might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out on page 115 of the Circular.

Respective responsibilities of the Directors and the reporting accountants

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 31 of Chapter 7 of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group had the Proposed Acquisition actually occurred as at 31 December 2008 or any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,
SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044
Hong Kong

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma consolidated balance sheet of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) have been prepared to illustrate the effect of the proposed acquisition of the entire equity interest in Hangzhou Huaguang Computer Engineering Company Limited (“Hangzhou Huaguang”) by the Company (“Proposed Acquisition”) on the financial information of the Group.

For the purpose of the Unaudited Pro Forma Financial Information, Hangzhou Huaguang and its subsidiary are referred to as the “Hangzhou Huaguang Group”. The Group immediately after the completion of the Proposed Acquisition is referred to as the “Enlarged Group”.

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on (1) the audited consolidated balance sheet of the Group as at 31 December 2008, which has been extracted from the published annual report of the Company for the year ended 31 December 2008 as set out in Appendix I to the Circular and (2) the audited consolidated balance sheet of the Hangzhou Huaguang Group as at 31 December 2008 as set out in Appendix II to the Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto as if the Proposed Acquisition had been completed at 31 December 2008.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position had the Proposed Acquisition been taken place as at the respective dates to which it is made up to or at any future dates.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

**UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE
ENLARGED GROUP**

	Audited consolidated balance sheet of the Group as at 31 December 2008 RMB'000	Audited consolidated balance sheet of the Hangzhou Huaguang Group as at 31 December 2008 RMB'000	Pro forma adjustment RMB'000	Pro forma adjustment RMB'000	Notes	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 December 2008 RMB'000
Non-current assets						
Property, plant and equipment	6,285	259				6,544
Intangible assets	317	–				317
Goodwill	956	–				956
	<u>7,558</u>	<u>259</u>				<u>7,817</u>
Current assets						
Inventories	–	2,495				2,495
Amount due from customers for contract work	1,349	–				1,349
Trade receivables	39,761	11,430				51,191
Prepayments and other receivables	57,245	3,818				61,063
Pledged bank deposits	–	4,630				4,630
Bank balances and cash	25,428	4,794	(5,100)	(4,900)	3	20,222
	<u>123,783</u>	<u>27,167</u>				<u>140,950</u>
Current liabilities						
Trade and other payables	29,018	12,144				41,162
Receipt in advance from customers	919	1,019				1,938
Current tax liabilities	2,418	319				2,737
Borrowings	–	2,700				2,700
	<u>32,355</u>	<u>16,182</u>				<u>48,537</u>
Net current assets	<u>91,428</u>	<u>10,985</u>				<u>92,413</u>
Net assets	<u>98,986</u>	<u>11,244</u>				<u>100,230</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	Audited consolidated balance sheet of the Hangzhou Huaguang Group as at 31 December 2008 RMB'000	Audited consolidated balance sheet of the Hangzhou Huaguang Group as at 31 December 2008 RMB'000	Pro forma adjustment RMB'000	Pro forma adjustment RMB'000	Notes	Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 December 2008 RMB'000
Capital and reserves						
Paid-in capital	35,655	10,000	(5,100)	(4,900)	4	35,655
Reserves	50,576	600	(306)	(294)	4	51,176
	<u> </u>	<u> </u>	306	294	4	<u> </u>
Equity attributable to equity holders of the Company	86,231	10,600				86,831
Minority interests	12,755	644				13,399
	<u> </u>	<u> </u>				<u> </u>
	<u>98,986</u>	<u>11,244</u>				<u>100,230</u>

Notes:

- (1) On 15 June 2009, the Company and Mr. Luo An have entered into the sale and purchase agreement (the “51% Sale and Purchase Agreement”). Pursuant to the 51% Sale and Purchase Agreement, the Company agreed to acquire and Mr. Luo An agreed to sell 51% equity interest of Hangzhou Huaguang for a cash consideration of approximately RMB5,100,000 (the “51% Proposed Acquisition”).

On the same date, the Company and Ms. Zhang Lianghong have entered into another sale and purchase agreement (the “49% Sale and Purchase Agreement”). Pursuant to the 49% Sale and Purchase Agreement, the Company agreed to acquire and Ms. Zhang Lianghong agreed to sell 49% equity interest of Hangzhou Huaguang for a cash consideration of approximately RMB4,900,000 (the “49% Proposed Acquisition”).

Upon the completion of the Proposed Acquisition, Hangzhou Huaguang would become a wholly-owned subsidiary of the Group.

- (2) Under International Financial Reporting Standard 3 “Business Combinations”, the Group will apply the purchase method to account for the acquisition of the Hangzhou Huaguang Group as subsidiaries if the Group has the power, directly or indirectly, to govern the financial and operating policies of the Hangzhou Huaguang Group, so as to obtain benefits from its activities after the completion of the Proposed Acquisition. The Group will gain control over the Hangzhou Huaguang Group after the completion of the Proposed Acquisition.

In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Hangzhou Huaguang Group will be included in the consolidated balance sheet of the Group at their fair values at the date of the completion of the Proposed Acquisition. Discount on acquisition arising from the Proposed Acquisition will be determined as the excess of the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Hangzhou Huaguang Group at the date of completion of the Proposed Acquisition over the cost of business combination. Discount of acquisition is recognised immediately in profit or loss.

- (3) The adjustments represent the purchase consideration of the Proposed Acquisition. The consideration is to be settled in cash.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

- (4) The adjustments represent the discount of acquisition, as if the Proposed Acquisition had taken place on 31 December 2008, which are calculated as follows:

The discount of acquisition arising from the Proposed Acquisition of the Hangzhou Huaguang Group is derived from the calculation as follows:

	Proposed Acquisition		Total
	51% Proposed Acquisition	49% Proposed Acquisition	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase consideration	5,100	4,900	10,000
Net assets attributable to the equity owners of Hangzhou Huaguang, represented by:			
Paid-in capital	(5,100)	(4,900)	(10,000)
Pre-acquisition reserves	(306)	(294)	(600)
	(5,406)	(5,194)	(10,600)
Discount of acquisition	(306)	(294)	(600)

It is assumed that the fair value of the identifiable assets and liabilities of the Hangzhou Huaguang Group as at 31 December 2008 is the carrying amounts as extracted from the Accountants' Report of the Hangzhou Huaguang Group as set out in Appendix II to this Circular.

On actual completion of the Proposed Acquisition, the fair value of the net identifiable assets and liabilities and contingent liabilities of the Hangzhou Huaguang Group will have to be assessed. As a result of the assessment, the amount of discount on acquisition may be different from that estimated based on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information. Accordingly, the actual discount on acquisition at the date of completion may be different from that presented above.

- (5) In the opinion of the directors, the transactions costs in connection of the Proposed Acquisition are insignificant and have not been taken into account in the preparation of the Unaudited Pro Forma Financial Information.
- (6) No adjustment has been made to reflect any other transactions of the Group and the Hangzhou Huaguang Group entered into subsequent to 31 December 2008.

Set out below is the management discussion and analysis of Hangzhou Huaguang for the three years ended 31 December 2008.

BUSINESS REVIEW

1. Review of operating results

Hangzhou Huaguang recorded an audited turnover of approximately RMB116,837,000, RMB89,020,000 and RMB77,673,000 for the years ended 31 December 2006, 2007 and 2008, respectively.

The audited results of Hangzhou Huaguang for each of the three years ended 31 December 2008 were loss of approximately RMB1,802,000, profit of approximately RMB1,106,000 and loss of approximately RMB3,093,000.

During the three years ended 31 December 2008, Hangzhou Huaguang maintained a sustainable and steady development. However, its performance in the year ended 31 December 2008 was adversely affected by the global freezing economic climate which resulted in difficult operating conditions in China. Hangzhou Huaguang established strategic cooperative relationship with more than 60 companies and academic institutions from various cities and counties in Zhejiang Province. The cooperation began with the provincial dealership system on IT products which included computer network engineering, comprehensive cooperation on various software and hardware solutions, involving a wide range of products and services. On the software sector, products with proprietary property rights, such as instrument for psychological evaluation and processing system on office association for broadcasting and television system, have been introduced successively. Hangzhou Huaguang endeavored to promote the application software used in broadcasting and television industry in Zhejiang Province and achieved satisfying results. In 2008, Hangzhou Huaguang cooperated with Zhejiang Telecom to jointly develop relevant products on communication integration.

For the Hangzhou Huaguang systems integration business and hardware sales, computer products from DELL, TCL and other brands contributed the majority of sales volume. Hangzhou Huaguang has established a well-developed sales system and sales channels, an excellent sales team, as well as building up resources on a large number of direct sales corporate clients.

2. Product development

During the review period, Hangzhou Huaguang has made substantial efforts on new product development and business innovation, as well as developing successively products with proprietary intellectual property rights, such as psychological health evaluation system with remote control, processing system on office association for broadcasting and television system and technological systems for facilitating GIS to proceed rapid assessment on disaster losses in weak magnitude regions, in which the latter was supported by the funding of information services development project of Zhejiang Province in 2006. Besides, “Psychological Health Evaluation System with Remote Control” was subsidized by the funding of high technology industry development projects.

3. Business development

During the review period, Hangzhou Huaguang has established healthy performance relationship with a group of well-known units, such as Zhejiang University and Hangzhou Gas Group Co., Ltd. (杭州燃氣集團有限公司). The major businesses promoted to its clients include computer network engineering, comprehensive cooperation on various software and hardware solutions. During the period, the application solutions for broadcasting and television industry and solutions on temperature control for granary in Zhejiang Province have achieved satisfying results. The hardware sales of Hangzhou Huaguang also maintained a steady development.

4. Employees information

For the review period, Hangzhou Huaguang had an average number of approximately 40 employees in total, of which approximately 15 are Research and Development personnel and approximately 15 are marketing staff. The total staff costs of Hangzhou Huaguang for each of the three years ended 31 December 2008 amounted to approximately RMB536,000, RMB688,000 and RMB574,000, respectively. Hangzhou Huaguang has established a comprehensive system on management, assessment and incentive for employee, in order to award and promote those who make a contribution to the Company. Besides, Hangzhou Huaguang lays high emphasis on fostering and building up the qualities of the employees by organizing studies groups and encouraging them to take part in relevant trainings. Hangzhou Huaguang is committed to create a fair, harmonious, and motivated environment for the employees, in order to promote mutual growth. During the review period, Hangzhou Huaguang had not established any share option scheme.

FINANCIAL REVIEW

- Hangzhou Huaguang maintained creditable financial conditions. For the three years ended 31 December 2008, it was mainly financed by its capital, bank borrowings as well as proceeds generated from its daily operations.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang’s cash and bank balances amounted to approximately RMB7,588,000, RMB4,189,000 and RMB9,424,000, respectively.

- As at 31 December 2006 and 2007, Hangzhou Huaguang had no outstanding bank borrowings. As at 31 December 2008, Hangzhou Huaguang had outstanding bank borrowings of approximately RMB2,700,000.
- As at 31 December 2006, 2007 and 2008 Hangzhou Huaguang, had a total asset value of approximately RMB36,967,000, RMB33,667,000 and RMB27,426,000, respectively.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang, had current liabilities of approximately RMB23,695,000, RMB19,273,000 and RMB16,182,000, respectively.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang had equity attributable to equity holders of approximately RMB12,587,000, RMB13,693,000 and RMB10,600,000, respectively.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang had minority interests of approximately RMB685,000, RMB701,000 and RMB644,000, respectively.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang had a gearing ratio (i.e. the ratio of liabilities to total assets) of approximately 64.10%, 57.25% and 59.00%, respectively.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang had a net current asset ratio (i.e. the ratio of current liabilities to current assets) of approximately 65.04%, 57.89% and 59.56%, respectively.
- As all Hangzhou Huaguang's account payables of purchase and account receivables of sales are denominated in Reminbi, there is no foreign exchange risk.
- During the review period, Hangzhou Huaguang had not made any material investments nor any material disposals of subsidiaries and affiliated companies.
- As at 31 December 2006, 2007 and 2008, Hangzhou Huaguang had bank deposits of approximately RMB4,981,000, RMB2,739,000 and RMB4,630,000 pledged to secure general banking facilities obtained. Save as disclosed herein, Hangzhou Huaguang had not charged any of its assets as at 31 December 2006, 2007 and 2008.
- As at the Latest Practicable Date, Hangzhou Huaguang had no material investment or capital assets acquisition plans for the ensuing year.
- As at 31 December 2008, Hangzhou Huaguang has acted as the guarantor for an external borrowing made by a third party in the amount of RMB1,000,000, which will be expired within two years of the settlement date of such borrowing. Save as disclosed herein, Hangzhou Huaguang had no significant contingent liabilities as at 31 December 2006, 2007 and 2008.

FUTURE PROSPECTS**1. Orders in hand/status in sales contract**

Hangzhou Huaguang maintains an amiable partnership with the Telecom Group. Its collaborative product includes “教育寶網站” (Website of the treasures of education) which integrates the communication and the children positioning system, and this product will be jointly promoted with the Telecom.

Hangzhou Huaguang has successfully become the provincial agents of Telecom Group on its ECP, C network, and wireless broadband products. It will put in huge efforts to promote these licensed products in the second half of 2009.

Hangzhou Huaguang is one of the two commercial distributions and integrators of the Dell Computer Corporation in Zhejiang Province. It will continue to increase the scale of the Dell's product sales and distribution.

Currently, Hangzhou Huaguang and the national community-based medical information system (national project) are in collaborative partnership and we provide them with hardware sales and software services.

2. Prospects of new business or new products

Currently, through the integration of Hangzhou Huaguang and the Company, Hangzhou Huaguang is not just able to maintain a sustainable development on its existing business, but also gradually shifts its business focus to the promotion of the value-added services and the improvement of the business channels. Hangzhou Huaguang is going to establish a corporate database by classifying and organizing the corporate clients on hand in order to undergo an analysis of their needs. Meanwhile, Hangzhou Huaguang will integrate the commencement of hardware sales and system integration business and target on the promotion of value-added products. Hangzhou Huaguang will also improve the existing sales channels and sales system, as well as establishing a mechanism and approach that will adapt to its business transformation.

To integrate its existing sales channels, Hangzhou Huaguang will strengthen the development of value-added products and establish bundled distribution on the existing whole line of value-added products of the Company, such as enterprise commercial services system and enterprise video applications, etc.

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 respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular 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 IN THE SHARES

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 are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests 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:

Name	Type of interests	Capacity	Number of domestic shares held	Percentage of beneficial interests in the Company's share capital
<i>Director</i>				
Chen Ping	Personal	Beneficial owner	36,392,320	10.21%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as the Directors are aware, 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 Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under section 336 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	Percentage of beneficial interests in the Company's share capital
Insigma Technology Co. Ltd.	Beneficial owner	81,802,637 domestic shares	22.94%
Shanghai Longtail Investment Management Co., Ltd.	Beneficial owner	34,117,808 domestic shares	9.57%
Guoheng Shengxing Media Science Group Company Limited	Beneficial owner	34,117,800 domestic shares	9.57%

Shareholder	Capacity	Number of shares held	Percentage of beneficial interests in the Company's share capital
Mr. Fong For	Beneficial owner	21,735,000 H shares	6.10%
Mr. Wu Zhong Hao	Beneficial owner	16,490,280 domestic shares	4.63%
Mr. Shi Chun Hua	Beneficial owner	7,235,812 domestic shares	2.03%

Save as disclosed above, the Directors are not aware of any person (other than the Directors, supervisors or chief executives of the Company) who, as at the Latest Practicable Date, has 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 Divisions 2 and 3 of Part XV of the SFO or which will be recorded in the register required to be kept under section 336 of the SFO, or who is 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, the management shareholders or substantial 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

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts with the Company or any of its subsidiaries other than contracts expiring or determinable by the Group within one (1) year without payment of compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration 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.

7. INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up).

9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
Ample Capital	a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
SHINEWING (HK) CPA Ltd. ("SHINEWING")	Certified public accountants

As at the Latest Practicable Date, neither Ample Capital nor SHINEWING had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, neither Ample Capital nor SHINEWING had any direct or indirect interest in any assets which had, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Ample Capital and SHINEWING 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 appear.

10. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) have been entered into by any member of the Group within the two years preceding the Latest Practicable Date:

1. Rights Transfer Agreement;
2. Termination Agreement;
3. SPA (Zongheng);
4. Hangzhou Huaguang (51%) Agreement;
5. Hangzhou Huaguang (49%) Agreement;
6. the share purchase agreement dated 13 September 2008, whereby the Company disposed of 9% equity interest in Lande Zongheng to Mr. Chen Wei for a cash consideration of RMB 700,000;
7. the rights transfer agreement entered into between the Company and 浙江天艾信息技术有限公司 (Zhejiang Tian'ai Information Technology Co. Ltd.) on 16 June 2008, whereby the Company agreed to transfer the exclusive right to purchase the 78% equity interest in Zhejiang Tianxin at a consideration of RMB14,000,000;
8. the termination agreement dated 16 June 2008 entered into among the Company, Zhejiang Tianxin and the shareholders of Zhejiang Tianxin, pursuant to which all constituent contracts and documents of the Tianxin Structure Contracts were terminated and ceased to have any effect on the date thereof;
9. the capital increase agreement entered into among Lan Chuang, the Company, Mr. Jin Lian Fu, Mr. Qiu Jin-song, Mr. Gao Zhang and Mr. Lei Jian Min on 20 December 2007, whereby parties agreed to increase the registered capital of Lan Chuang from RMB5,000,000 to RMB10,000,000 by injecting cash in accordance with their respective equity interests in the registered capital of Lan Chuang;
10. the supplemental Lan Chuang Framework Contract entered into among Lan Chuang, the Company, Mr. Jin Lian Fu, Mr. Qiu Jin-song, Mr. Gao Zhang and Mr. Lei Jian Min on 20 December 2007, whereby the parties agreed to amend the Lan Chuang Framework Contract and its respective appendices to reflect the increase in registered capital of Lan Chuang;

11. the loan agreement entered into between the Company and Mr. Jin Lian Fu on 20 December 2007, whereby the Company agreed to lend to Mr. Jin Lian Fu an amount of RMB4,250,000 with nil interest; and
12. the capital increase and subscription agreement entered into between the Company and 上海長尾投資管理有限公司 (Shanghai Longtail Investment Management Co., Ltd.) (“**Shanghai Longtail**”) on 23 July 2007, whereby the Company agreed to (i) increase its registered share capital from RMB33,957,700 to RMB35,654,617; and (ii) allot and issue 16,969,170 domestic shares to the Shanghai Longtail at a consideration of approximately RMB6,278,590.

11. 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 company secretary of the Company is Miss Chan Ching Yi, Yvonne who is the fellow 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) As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which had, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

- (g) The Company has established an audit committee (the “**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 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. Gu Yu Lin, Mr. Zhang De Xin and Mr. Cai Xiao Fu. Mr. Gu Yu Lin is the chairman of the Audit Committee.

Mr. Gu Yu Lin, aged 38, 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.

Mr. Zhang De Xin, aged 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, aged 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. Mr. Cai joined the Company in October 2001.

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.

- (h) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

12. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Messrs. Li & Partners at 22nd Floor, World Wide House, Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date hereof:

- (a) the memorandum and articles of association of the Company;
- (b) the Sichuang Structure Contracts;
- (c) Rights Transfer Agreement;
- (d) SPA (Zongheng);
- (e) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (f) the annual reports of the Company for the two years ended 31 December 2007 and 2008;
- (g) the written consents referred to under the section headed “Experts and Consents” in this appendix;
- (h) the report from SHINEWING (HK) CPA Limited on the unaudited pro forma financial information on the Enlarged Group;
- (i) the accountants’ report on Hangzhou Huaguang in Appendix II to this circular;
- (j) a copy of each circular issued by the Company pursuant to the requirements set out in Chapters 19 and/or 20 of the GEM Listing Rules which has been issued since the date of the latest published audited accounts of the Company; and
- (k) this circular.

NOTICE OF EGM



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 OF EXTRAORDINARY GENERAL MEETING

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 1/F-3/F, Block 3, 108 Gu Cui Road, Hangzhou City, the PRC on Friday, 28 August 2009 at 2:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTION

“THAT:

- (i) (a) the Rights Transfer Agreement (as defined in the circular of the Company dated 30 June 2009, copy of which has been produced to the EGM marked “A” and signed by the chairman of the meeting for the purpose of identification), and the terms and conditions thereof and all the transactions contemplated thereunder and the implementation thereof be and are hereby ratified, confirmed and approved; and
- (b) any one of the directors (the “**Directors**”) 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 Rights 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 SPA (Zongheng) (as defined in the circular of the Company dated 30 June 2009, copy of which has been produced to the EGM marked “B” and signed by the chairman of the meeting for the purpose of identification), and the terms and conditions thereof and all the transactions contemplated thereunder and the implementation thereof be and are hereby ratified, confirmed and approved; and

* For identification purpose only

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- (b) any one of the Directors 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 SPA (Zongheng) and to sign and execute any other documents or to do any other matters incidental thereto and/or contemplated thereunder.
- (iii) (a) the Hangzhou Huaguang (51%) Agreement (as defined in the circular of the Company dated 30 June 2009, copy of which has been produced to the EGM marked “C” and signed by the chairman of the meeting for the purpose of identification), and the terms and conditions thereof and all the transactions contemplated thereunder and the implementation thereof be and are hereby ratified, confirmed and approved;
- (b) the Hangzhou Huaguang (49%) Agreement (as defined in the circular of the Company dated 30 June 2009, copy of which has been produced to the EGM marked “D” and signed by the chairman of the meeting for the purpose of identification), and the terms and conditions thereof and all the transactions contemplated thereunder and the implementation thereof be and are hereby ratified, confirmed and approved; and
- (c) any one of the Directors 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 Hangzhou Huaguang (51%) Agreement and the Hangzhou Huaguang (49%) Agreement 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
Zheda Lande Scitech Limited*
Chen Ping
Chairman

Hangzhou, the PRC
30 June 2009

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

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

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Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of H shares proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited with the Company's H Share Registrar, Hong Kong Registrars Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the above meeting or any adjournment 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 29 July 2009 to 28 August 2009 (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 4:30 p.m. on 28 July 2009 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.