Annual Report
2008

ZZNode Technologies Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 2371)

Contents

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. CHAN Shui Sheung, Ivy
Ms. SO Wai Lam
Mr. LIU Yong Fei
Mr. TIN Ka Pak

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Shiu Ki
Mr. LAM Raymond Shiu Cheung
Mr. LAM Ka Wai, Graham

COMPANY SECRETARY

Ms. TSOI Lai Kwan

AUDIT COMMITTEE

Mr. LAM Ka Wai, Graham
(Chairman of the Audit Committee)
Mr. LAM Raymond Shiu Cheung
Mr. CHOW Shiu Ki

REMUNERATION COMMITTEE

Mr. LAM Ka Wai, Graham
(Chairman of the Remuneration Committee)
Mr. LAM Raymond Shiu Cheung
Ms. CHAN Shui Sheung, Ivy

NOMINATION COMMITTEE

Mr. CHOW Shiu Ki
(Chairman of the Nomination Committee)
Ms. CHAN Shui Sheung, Ivy
Mr. LAM Ka Wai, Graham

AUTHORISED REPRESENTATIVES

Ms. CHAN Shui Sheung, Ivy
Ms. TSOI Lai Kwan

AUDITOR

SHINEWING (HK) CPA Limited

PRINCIPAL BANKER

Fubon Bank (Hong Kong) Limited

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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12th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O.Box 513
Strathvale House
North Church Street
George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

www.zznode.com

STOCK CODE

2371

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years prepared on the basis set out in the notes below:

RESULTS

	2008 RMB	2007 RMB	2006 RMB	2005 RMB	2004 RMB
Revenue	**23,966,337**	85,117,959	125,386,040	97,314,518	108,226,076
Gross profit	**4,993,103**	20,352,220	42,113,281	35,982,864	49,875,857
(Loss) profit before tax	**(33,929,013)**	(20,174,111)	12,448,334	9,983,261	29,740,307
(Loss) profit for the year	**(33,040,453)**	19,457,177	12,357,589	9,255,522	28,279,855
Basic (loss) earnings Per share (RMB cents)	**(8.19)**	(4.93)	3.09	2.31	9.06

ASSETS AND LIABILITIES

	2008 RMB	2007 RMB	2006 RMB	2005 RMB	2004 RMB
Non-current assets	**46,612,083**	25,101,847	30,309,215	34,133,871	13,472,751
Current assets	**48,992,824**	127,219,620	149,466,932	124,593,213	138,818,176
Current liabilities	**(10,826,104)**	(32,934,597)	(42,423,660)	(31,255,332)	(28,769,240)
Net current assets	**38,166,720**	94,285,023	107,043,272	93,337,881	110,048,936
Non-current liabilities	**–**	–	(716,934)	(626,189)	–
Shareholders' funds	**84,778,803**	119,386,870	136,635,553	126,845,563	123,521,687

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group recorded a turnover of RMB23,966,337 (2007: RMB85,117,959), representing a decrease of 71.8% as compared to that of last year. Of these, turnover derived from the sales of self-developed software was RMB2,729,141 (2007: RMB36,628,089), representing a decrease of 92.5%. Turnover derived from sales of third party software and hardware decreased from RMB33,129,936 in last year to RMB4,654,458, representing a decrease of 86%. Turnover derived from system integration, maintenance and other services was RMB16,540,282 (2007: RMB15,359,934). The substantial decrease in turnover from sales of self-developed software and sales of third party software and hardware was mainly due to the disposal of Modern Age Investments Limited and its subsidiary, Beijing Zhizhen Node Technology Development Co., Ltd. (the "Disposal Group") in January 2008. The Group holds investment properties and has earned rental income under operating leases amounted to RMB42,456 for the year.

The Group recorded a gross profit of RMB4,993,103 (2007: RMB20,352,220) for the year 2008. The overall gross margin decreased from approximately 23.9% of last year to approximately 20.8% of this year.

The decrease in administrative expenses by 51.8% from RMB34,554,256 of last year to RMB16,649,226 in this year mainly attributable to the exclusion of operating expenses contributed by the Disposal Group.

Loss attributable to shareholders was approximately RMB33,040,453 for the year (2007: RMB19,457,177). Basic loss per share were approximately RMB8.19 cents for the year (2007: RMB4.93 cents).

BUSINESS REVIEW

The Group is principally engaged in the provision of operational support system (OSS) software development and integrated services to telecommunications operators in China as well as mobile communication network optimisation services.

During 2008, in response to the completion of restructuring of telecommunications operators in China; the issuance of 3G licenses, and the increasing efforts of operators in expanding mobile communication networks, the Group has moderated its business operations and achieved certain improvements to its network optimisation business. Breakthroughs were also made in the development of management software for the telecommunications value-added business.

Product Research and Development

The Group continued to conduct iterative development, management of assembly techniques and technological implementation. It reviewed and optimised the development of management flow of the organisation on an ongoing basis to enhance the efficiency and to mitigate the risks in product research and development.

In addition, the Group placed more emphasis on the research and development of public assembly modules, which provided strong support to the rapid development of the management software of the valued-added business.

Management Discussion and Analysis

Engineering Service

After years of effort, the Group achieved remarkable improvement in its project management as well as the quality of its workforce. The expansion of the 2G mobile communication network and increased efforts put into establishing the 3G mobile communication network resulted in certain improvement in the network optimisation business.

Customer Base

The ultimate customers of the Group comprised of telecommunications operators, including China Mobile. Through the establishment of strategic partnerships, the Group successfully provided OSS software and network optimisation services to its ultimate customers.

Sales Strategies

The Group has established a sales and marketing team which is responsible for the formulation of the Company's overall marketing and cooperation strategies which include competitor analysis, new customers identification and new business development, and provision of technical support to the sales division and customer services team.

To integrate the development of the network optimisation business, the Group has assigned customer service representatives residing at various provinces and municipalities, including Shijiazhuang and Jilin, by which its sales and service network had become more comprehensive.

Internal Reform and Management

The Group consolidated its business into two main units according to its business needs, namely the business support unit and functional support unit respectively. The business support unit was further divided into two business lines, namely network optimisation engineering services and software development services.

To complement the above reform measures, the Group had strengthened the reporting, supervision and examination functions of the business lines, formulated underlying policies, enhanced tracking and monitoring capabilities of the processes of product research and development and network optimisation service.

BUSINESS OUTLOOK

OSS Software Development and Network Optimisation

The Group will step up its efforts in the area of mobile communication network optimisation, maintaining its business partnerships with prestigious local and overseas communication equipment manufacturers, preserving its market share in certain provinces of China, and grasp any viable opportunity that arises from network optimisation in connection with the building of 3G networks. At the same time, it shall take part in the development of certain software regarding network optimisation business and telecommunications value-added businesses.

Material Acquisition and Disposals/Future Plans for Material Investment

On 13 May 2008, the Company announced a very substantial acquisition of the 100% equity interest in Precious Luck Enterprises Limited. The Directors expect that, through this acquisition, the Company will take part in the operation and broadcasting across a network of outdoor mega LED displays throughout the PRC's major cities and it will generate revenue from broadcasting and advertisements placed and will general stable income to the

Management Discussion and Analysis

Group. In light of the ongoing volatility in the market condition, the parties are of the view that additional time is required to negotiate the exact amount of the consideration and the payment mechanism of the consideration of the acquisition. As at the date of this report, the Company had paid HK$24,000,000 as the earnest money and this acquisition is not yet completed.

Reference is made to the Annual Report 2007, the Company entered disposal agreement to sell Modern Age Investments Limited and its subsidiary Beijing Zhizhen Node Technology Development Co., Ltd. for a cash consideration of HK$110,000,000 (the "Disposal"). The Disposal was approved at the special general meeting of the Company held on 10 January 2008 and completed on 21 January 2008.

Save as disclosed in this report, the Company does not have other material acquisitions and disposals or future plans for material investments.

The Group is actively exploring the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio and to generate stable and solid revenue.

ADVANCE TO AN ENTITY

On 7th April 2008, Perfection Asia Limited ("Perfection Asia"), a wholly-owned subsidiary of the Company, entered into the heads of agreement with Wellcom International Limited ("Wellcom") in relation to a proposed acquisition of 60% interest in Baas Enterprises Limited (the "Heads of Agreement"). Pursuant to the Heads of Agreement, Perfection Asia shall upon signing of the agreement pay HK$50,000,000 to Wellcom as the earnest money for being granted the exclusivity. On 20 September 2008, a supplemental heads of agreement was entered into between Perfection Asia and Wellcom for the extension of the exclusivity to 19 December 2008 (the "Supplemental Heads of Agreement"). As the conditions precedent for entering into the formal sale and purchase agreement had not been fulfilled on 19 December 2008, the Heads of Agreement and the Supplemental Heads of Agreement were lapsed and Perfection Asia has requested for refund of the earnest money paid in the sum of HK$50,000,000. For more details, please refer to the Company's announcements dated 7 April 2008, 29 September 2008 and 22 December 2008, and note 23 to the consolidated financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and the bank balance.

As at 31 December 2008, the Group had bank balances and cash of RMB3,887,517 as compared to the bank balances and cash of RMB40,715,159 and bank deposits of RMB37,003,227 as at 31 December 2007.

The Group's net current assets totalled RMB38,166,720 as at 31 December 2008, against RMB94,285,023 as at the end of the previous financial year. The Group's current ratio was approximately 4.53 as at 31 December 2008 as compared with 3.86 as at 31 December 2007.

GEARING RATIO

As at 31 December 2008, the Group did not have any long-term debts while its shareholders' funds amounted to RMB84,778,803. In this regard, the Group holds a net cash position with nil gearing ratio (net debt to shareholders' funds) as at 31 December 2008 (2007: Nil).

Management Discussion and Analysis

CAPITAL STRUCTURE

For the year ended 31 December 2008, there was no change in the capital structure and details of the issued share capital of the Company are set out in note 28 to the consolidated financial statements.

SIGNIFICANT INVESTMENT

As at 31 December 2008, the Group held investment properties and investment in listed securities amounted to approximately RMB8.9 million and approximately RMB8.0 million respectively. During the year, the Group recorded a decrease in fair value of investment properties of approximately RMB6.7 million and a decrease in fair value of investment in listed securities of approximately RMB0.6 million. The Directors expect that the values of the investment properties and the listed securities will increase in 2009 in accordance with the recovery of the property market and stock market in Hong Kong. Details of the Group's investment properties are set out in note 17 to the consolidated financial statements and on page 84 of this annual report. Details of the Group's investment in listed securities are set out in note 24 to the consolidated financial statements.

The Group had no significant investment for the year ended 31 December 2007.

FOREIGN EXCHANGE EXPOSURE

Substantially all of the business transactions of the Group are denominated in Renminbi and Hong Kong dollars. The Group adopts a conservative financial policy. As at 31 December 2008, the Group did not have any bank liabilities, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

CHARGES ON GROUP ASSETS

As at 31 December 2008, the Group did not have any charges on its assets (2007: Nil).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any significant contingent liabilities (2007: Nil).

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 31 December 2008, the Group has 37 employees (2007: 420). The emoluments of the directors of the Company are recommended by the remuneration committee, and approved by the Board, as authorised by shareholders of the Company in the annual general meeting of the Company, having regard to their skills, knowledge and involvement in the Company's affairs. No directors are involved in deciding their own remuneration.

We offer competitive remuneration package, including medical and retirement benefits, to eligible employees. Apart from basic salary, employees are eligible to receive a discretionary bonus taking into account factors such as market conditions as well as corporate and individual's performance during the year. We are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. CHAN Shui Sheung, Ivy ("Ms. Chan"), aged 44, is an executive director of the Company since January 2008. Ms. Chan graduated from The University of South Australia with a Master of Business Administration degree. Ms. Chan has over 15 years of experience in investment and is currently the director of certain subsidiaries of the Company. She is also a director of Channel Enterprises (Int'l) Limited and Century 21 Surveyors Limited, and an executive director of PME Group Limited ("PME Group", Stock Code: 379), a company listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a substantial shareholder of the Company, and China Railway Logistics Limited ("China Railway", Stock Code: 8089), a company listed on GEM Board of the Stock Exchange.

Ms. Chan is entitled to monthly emolument of HK$30,000 (without any bonus payment) which has been determined by the Board with reference to her respective duties and responsibilities and the prevailing market conditions.

Save as disclosed above, Ms. Chan (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the Securities and Futures Ordinance ("SFO"); and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Ms. SO Wai Lam ("Ms. So"), aged 28, is an executive director of the Company since January 2008. Ms. So holds a bachelor degree of Science with double majors in Mathematics and Statistics from the University of British Columbia in Canada. She has over 5 years experience in the corporate finance industry.

Ms. So is entitled to monthly emolument of HK$20,000 (without any bonus payment) which has been determined by the Board with reference to her respective duties and responsibilities and the prevailing market conditions.

Save as disclosed above, Ms. So (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the SFO; and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Biographical Details of Directors and Senior Management

Mr. LIU Yong Fei ("Mr. Liu"), aged 44, is an executive director of the Company since June 2008. Mr. Liu graduated from Beijing Institute of Business (now known as Beijing Technology and Business University) and the First Senior Refreshment Session of Business Management Talent Program for the Cultural Industry launched by Peking University and Time Warner. Mr. Liu has over 18 years experience in the industry of cultural and entertainment media, covering movie investment, teleplay, musical play and drama production, as well as management of entertainment agencies and entertainment media investment company.

Mr. Liu is entitled to monthly emolument of HK$100,000 (without bonus payment) which is determined with reference to his duties and responsibilities within the Company and the prevailing market conditions.

Save as disclosed above, Mr. Liu (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the SFO; and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr. TIN Ka Pak ("Mr. Tin"), aged 33, is an executive director of the Company since June 2008. Mr. Tin holds a Bachelor degree of Business Administration from Oxford Brookes University. Mr. Tin has been working in companies listed in the Stock Exchange to assist the chairman and CEO in group management, strategic planning, sales and marketing development, investment evaluation and investor relationship. Mr. Tin is currently an executive director of PME Group (Stock Code: 379), a company listed on Main Board of the Stock Exchange and a substantial shareholder of the Company and China Bio-Med Regeneration Technology Limited ("China Bio-Med", Stock Code: 8158), a company listed on GEM Board of the Stock Exchange.

Mr. Tin is entitled to monthly emolument of HK$20,000 (without bonus payment) which is determined with reference to his duties and responsibilities within the Company and the prevailing market conditions.

Save as disclosed above, Mr. Tin (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the SFO; and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Shiu Ki ("Mr. Chow"), aged 41, is an independent non-executive director of the Company since January 2008. Mr. Chow has accumulated over 20 years of experience in auditing, accounting and corporate finance areas. Mr. Chow is a fellow member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. Mr. Chow is the qualified accountant of Byford International Limited ("Byford", Stock Code: 8272) and was an independent non-executive Director of Intelli-Media Group (Holdings) Limited ("Intelli-Media", Stock Code: 8173) during the period from 3 November 2006 to 20 August 2008, both Byford and Intelli-Media are listed on GEM Board of the Stock Exchange.

Mr. Chow is entitled to HK$15,000 per month as director's fee (without any bonus payment) which has been determined by the Board with reference to his respective duties and responsibilities and the prevailing market conditions.

Save as disclosed above, Mr. Chow (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the SFO; and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr. LAM Raymond Shiu Cheung ("Mr. Raymond Lam"), aged 43, is an independent non-executive director of the Company since January 2008. Mr. Raymond Lam graduated from the Victoria University of Melbourne, Australia with a Bachelor of Business Degree majoring in banking and finance. He also earned a Master Degree in Applied Finance from Macquarie University of Australia. Mr. Raymond Lam has 17 years extensive experience in business development and corporate finance. He started his career in corporate banking; he then joined one of the biggest oil companies in the USA specializing in the area of business development. Currently he is a senior manager of an investment company in Hong Kong. He is also the independent non-executive director of China Railway (Stock Code: 8089) and China Bio-Med (Stock Code: 8158), both China Railway and China Bio-Med are listed on GEM Board of the Stock Exchange.

Mr. Raymond Lam is entitled to HK$15,000 per month as director's fee (without any bonus payment) which has been determined by the Board with reference to his respective duties and responsibilities and the prevailing market conditions.

Save as disclosed above, Mr. Raymond Lam (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the SFO; and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Biographical Details of Directors and Senior Management

Mr. LAM Ka Wai, Graham ("Mr. Graham Lam"), aged 41, is an independent non-executive director of the Company since January 2008. Mr. Graham Lam graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Graham Lam is currently a managing director and head of corporate finance of an investment bank and has around 15 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also an independent non-executive director of China Railway (Stock Code: 8089), Cheuk Nang (Holdings) Limited (Stock Code: 131), China Fortune Group Limited (Stock Code: 290), Applied Development Holdings Limited (Stock Code: 519), Artfield Group Limited (Stock Code: 1229) and Pearl Oriental Innovation Limited (Stock Code: 632), all of which are companies listed on Main Board of the Stock Exchange, except China Railway which is a company listed on GEM Board of the Stock Exchange.

Mr. Graham Lam is entitled to HK$15,000 per month as director's fee (without any bonus payment) which has been determined by the Board with reference to his respective duties and responsibilities and the prevailing market conditions.

Save as disclosed above, Mr. Graham Lam (i) did not hold any directorships in other companies listed in Hong Kong and overseas in the last three years and does not hold any other position in the Group; (ii) has not entered into any written service contract with the Company but is subject to retirement by rotation and re-election in accordance with the articles of association of the Company; (iii) does not have any interest in the shares of the Company which required to be disclosed under Part XV of the SFO; and (iv) has no relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. WANG De Jie ("Mr. Wang"), aged 44, holds a bachelor degree of engineering from 中國人民解放軍國防科學技術大學電子計算器系 (the Department of Computer Science of the National University of Defense Technology of People's Liberation Army), majoring in Computer and application and a master degree of engineering from 中國科學院計算技術研究所 (Institute of Computing Technology Chinese Academy of Science), majoring in 計算機組織與系統結構 (Computer Organization and Architecture). Mr. Wang worked for the Institute of Computing Technology Chinese Academy of Science and undertook projects such as the construction of the electronic financial system in Ningbo, 民政部農村社會養老保險管理系統 (management system for the rural pension scheme organized by the Ministry of Civil Affairs), 廣東省建行全省大聯網工程 (general network integration project of China Construction Bank in Guangdong Province, the billing system of 深圳有線電視台 HFC 網路 (HFC Network of Shenzhen Cable Television) and 中科院百所聯網工程 (Network connection project of academic institutes in the PRC by China Academy of Science) and obtained the qualification as an associate researcher in December 1995; he also worked for 國訊科技有限公司 (Guoxun Tec. Company Limited) as a manager of the department of system integration and was responsible for the construction of integrated billing system for the telecommunications of China at provincial level. Mr. Wang is an executive director of ZZNode (Shanghai), a subsidiary of the Company, and fully responsible for the business in Shanghai, since July 2004.

Mr. CHEN Guang An ("Mr. Chen"), aged 34, holds a bachelor degree of science from Shenyang Agricultural University, majoring in agricultural meteorology. Mr. Chen worked for the computer teaching and research section for the center of product development of 遼寧創業教學儀器有限公司 (Liaoling Chuang Ye Teaching Apparatus Company Limited) as a project manager and was responsible for the plan design, project application and after-sales service of enterprise networks; he was transferred to 瀋陽創想網絡工程有限公司 (Shenyang Chuang Xiang Network Engineering Company Limited), a subsidiary of Liaoling Chuang Ye Teaching Apparatus Company Limited as a senor project manager and mainly responsible for education networks, the design of system plan of enterprise network projects, equipment installation test and adjustment, system installation and the design and construction and after-sale services related to integrated wiring systems. Mr. Chen is the general manager of ZZNode (Shanghai), a subsidiary of the Company, and responsible for the daily business in Shanghai, since July 2004.

Report of the Directors

The directors of the Company ("Directors") is pleased to present their annual report together with the audited consolidated financial statements of ZZNode Technologies Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 36 to the consolidated financial statements. The Group is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC.

An analysis of the Group's performance for the year by business segments is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 30.

The Directors did not recommend payment of final dividend for the year ended 31 December 2008 (2007: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 32.

The Company had no reserves available for distribution to shareholders as at 31 December 2008.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to its existing shareholders in proportion to their shareholdings and there is no restriction against such rights under the laws of the Cayman Islands.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Ms. CHAN Shui Sheung, Ivy	(Appointed on 24 January 2008)
Ms. SO Wai Lam	(Appointed on 24 January 2008)
Mr. LIU Yong Fei	(Appointed on 2 June 2008)
Mr. TIN Ka Pak	(Appointed on 2 June 2008)
Mr. Christian Emil TOGGENBURGER	(Appointed on 24 January 2008 and retired on 29 May 2008)
Ms. WANG Feixue *(Chairman)*	(Resigned on 20 February 2008)
Mr. JIN Jianlin	(Resigned on 20 February 2008)
Mr. YUAN Juan	(Resigned on 20 February 2008)
Ms. HU Rong	(Resigned on 20 February 2008)

Non-executive Director

Mr. ZHANG Suyang	(Resigned on 20 February 2008)

Independent Non-executive Directors

Mr. CHOW Shiu Ki	(Appointed on 24 January 2008)
Mr. LAM Raymond Shiu Cheung	(Appointed on 24 January 2008)
Mr. LAM Ka Wai, Graham	(Appointed on 29 January 2008)
Mr. HUNG Randy King Kuen	(Resigned on 20 February 2008)
Mr. CHEN Xiaohong	(Resigned on 20 February 2008)
Mr. HE Xingui	(Resigned on 20 February 2008)

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers all its independent non-executive Directors to be independent.

In accordance with article 86(3) of the Articles of Association, Mr. Liu Yong Fei and Mr. Tin Ka Pak will hold the office only until the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election at the AGM.

In accordance with article 87(1) of the Articles of Association, Ms. Chan Shui Sheung, Ivy and Ms. So Wai Lam will retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

None of the existing Directors has entered into any written service contract with the Company but subject to retirement by rotation and re-election in accordance with the Articles of Association.

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

SHARE OPTIONS

Share Option Scheme

The Group operated two equity-settled share option schemes, (a) the Share Option Scheme and (b) the Share Incentive Scheme, under which the Board might, at its discretion, offer any employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including any executive Director), consultants, agents or legal and financial advisers to the Company or its subsidiaries whom the Board considered, in its sole discretion, as having contributed to the Company or any of its subsidiaries.

During the year, no option was granted under the Share Option Scheme and all the outstanding options are either exercised or cancelled upon resignation of directors and senior management. All the outstanding share options under the Share Incentive Scheme were cancelled during the year ended 31 December 2008.

Report of the Directors

Movements of share options outstanding as at 31 December 2008 under (a) the Share Option Scheme and (b) the Share Incentive Scheme are summarised as follows, details of which are set out in note 31 to the consolidated financial statements.

(a) *Share Option Scheme*

List of Grantee	Balance as at 1 January 2008	Granted during the year	Exercised during the year	Cancelled during the year	Balance as at 31 December 2008
Name of directors					
Ms. WANG Feixue	7,950,000	–	(4,000,000)	(3,950,000)	–
Mr. JIN Jianlin	7,950,000	–	(4,000,000)	(3,950,000)	–
Mr. YUAN Juan	4,500,000	–	(1,500,000)	(3,000,000)	–
Ms. HU Rong	1,000,000	–	(500,000)	(500,000)	–
Senior management	3,500,000	–	–	(3,500,000)	–
	24,900,000	–	(10,000,000)	(14,900,000)*	–

* Those share options were cancelled by accepting an option offer at HK$0.2075 in cash. For details, please refer to the circular of the Company dated 1 February 2008.

(b) *Share Incentive Scheme*

List of Grantee	Option category	Balance as at 1 January 2008	Granted during the year	Exercised during the year	Cancelled during the year	Balance as at 31 December 2008
Employees	2004	5,425,400	–	–	(5,425,400)	–
Consultants	2004	990,000	–	–	(990,000)	–
Consultants	2005	976,000	–	–	(976,000)	–
Employees	2006	972,000	–	–	(972,000)	–
		8,363,400	–	–	(8,363,400)	–

Details of specific categories of options are as follows:

	Date of grant	Exercise period	Exercise price
2004	27/10/2004	18/11/2005 - 18/11/2009	HK$0.2
2005	22/12/2005	21/12/2006 - 21/12/2010	HK$0.2
2006	14/03/2006	14/3/2007 - 14/3/2011	HK$0.2

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2008, none of the Directors and the chief executives of the Company held any interests or short positions in the shares, underlying shares (as defined in the Securities and Futures Ordinance (the "SFO")) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2008, the following persons (other than Directors or chief executives of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of substantial shareholders of the Company	Nature of interests	No. of shares/ underlying shares in the Company	Approximate percentage of the issued share in the Company
Betterment Enterprises Limited	Corporate *(Note 1)*	118,624,108	29.29%
PME Group Limited	Corporate *(Note 1)*	118,624,108	29.29%
Ascher Group Limited *(Note 2)*	Corporate	377,520,000	93.21%
Mr. Lu Xing ("Mr. Lu")	Held by controlled corporation *(Note 3)*	377,520,000	93.21%
Rotaland Limited *(Note 2)*	Corporate	1,074,480,000	265.30%
Mr. Ho Wai Kong ("Mr. Ho")	Held by controlled corporation *(Note 4)*	1,074,480,000	265.30%

Report of the Directors

Notes:

1. Betterment Enterprises Limited is a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Richcom Group Limited (99.49%). Richcom Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by CR Investment Group Limited. CR Investment Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by PME Group Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 379).

2. On 27 April 2008, Million Gold Holdings Limited, a wholly-owned subsidiary of the Company with limited liability, together with the Company, entered into an agreement with Rotaland Limited and Ascher Group Limited in relation to the acquisition of the entire issued share capital of Precious Luck (the "Acquisition"),a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Rotaland Limited as to 74% and Ascher Group Limited as to 26%. Upon completion, 377,520,000 and 1,074,480,000 convertible notes will be issued to Ascher Group Limited and Rotaland Limited respectively. However, as at the date of this report, the Acquisition is not yet completed.

3. Ascher Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Lu.

4. Rotaland Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Ho.

Save as disclosed above, as at 31 December 2008, the Company had not been notified of any interest or short position being held by any substantial shareholder in the shares or underlying shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING INTERESTS

As at 31 December 2008, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases for the year attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	4.1%
Five largest suppliers combined	11%

The percentage of sales for the year attributable to the Group's major customers is as follows:

The largest customer	25.3%
Five largest customers combined	86.2%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED PARTY TRANSACTIONS

On 24 October 2007, the Company entered into a disposal agreement with Bright Pearl Holdings Limited, a shareholder of the Company, to dispose its entire interest in Modern Age Investment Limited and its subsidiary, Beijing Zhizhen Node Technology Development Co., Ltd. (the "Disposal Group") at a consideration of HK$110,000,000 (the "Disposal"). The Directors believe that the Disposal represent a good opportunity for the Company to realise the business of the Disposal Group at a reasonable price. The realisation of the business through the Disposal enables the Group to be equipped with the immediate financial resources for tapping into other business opportunities to enhance the continuous business growth of the Group. The Disposal was approved in the extraordinary general meeting of the Company held on 10 January 2008 and completed on 21 January 2008. More details of the Disposal are disclosed in note 35 to the consolidated financial statements.

During the year, the Group drawn a loan of amount HK$7,000,000 (approximately RMB6,191,500) from Richcom Group Limited ("Richcom") and interest expenses of amount HK$200,000 (approximately RMB177,000) was paid thereto. Richcom is a wholly-owned subsidiary of PME Group Limited, which is a substantial shareholder of the Company. The loan amount together with the interests incurred had been settled.

POST BALANCE SHEET EVENT

Pursuant to the announcements dated 30 January 2009 and 26 March 2009 respectively made by the Company, the potential acquisition of investments as more fully explained in note 20 are still under negotiation and discussion and accordingly, as of the date on which the consolidated financial statements are being approved by the directors, the consideration and payment mechanism in respect of the transaction is still not yet finalised and the proposed transaction is still not yet completed.

Should the transaction be completed in future, there might be a change in the beneficial shareholders of the Company.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2008.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 21 to 27 of this annual report for details of its compliance with the Code on Corporate Governance Practices.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2006 and 2007 were audited by Deloitte Touche Tohmatsu.

The consolidated financial statements for the year ended 31 December 2008 were audited by SHINEWING (HK) CPA Limited.

A resolution to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the AGM.

On behalf of the Board
Tin Ka Pak
Executive Director

Hong Kong, 16 April 2009

Corporate Governance Report

INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices have always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance (the "CG Code") as set out in Appendix 14 of the Listing Rules and deviations.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the provisions of the CG Code. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The directors of the Company ("Directors") acknowledge their responsibility for preparing the Company's accounts. The board of Directors (the "Board") has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

During the year ended 31 December 2008 and up to the date of this annual report, there are deviations according to the CG Code as stated in paragraph headed "Chairman and Chief Executive Officer" and "Non-executive Directors".

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors' securities transactions.

THE BOARD OF DIRECTORS

As at the date of this annual report, the Board consists of seven Directors, of whom four are the executive Directors, namely Ms. Chan Shui Sheung, Ivy, Ms. So Wai Lam, Mr. Liu Yong Fei and Mr. Tin Ka Pak, and three are the independent non-executive Directors, namely Mr. Chow Shiu Ki, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai, Graham. Their respective biographies are set out on pages 8 to 11 of this annual report.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to rules 3.13 of the Listing Rules and the Company considers all its independent non-executive Directors to be independent.

Corporate Governance Report

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegates day-to-day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies; approval of business plans; evaluating the performance of the Company and oversight of management. Decisions of the Board are communicated to the management through executive Directors who have attended the Board meetings.

To the best knowledge of the Company, there is no financial business, family or other material/relevant relationship among the Directors, especially between the officers of the Company.

In the financial year ended 31 December 2008, 35 Board meetings were held. Details of the attendance record of the Directors are as follows:

		Attendance
Executive Directors		
Ms. CHAN Shui Sheung, Ivy	(Appointed on 24 January 2008)	26/29
Ms. SO Wai Lam	(Appointed on 24 January 2008)	27/29
Mr. LIU Yong Fei	(Appointed on 2 June 2008)	1/5
Mr. TIN Ka Pak	(Appointed on 2 June 2008)	4/5
Mr. Christian Emil TOGGENBURGER	(Appointed on 24 January 2008 and retired on 29 May 2008)	9/24
Ms. WANG Feixue *(Chairman)*	(Resigned on 20 February 2008)	3/4
Mr. JIN Jianlin	(Resigned on 20 February 2008)	2/4
Mr. YUAN Juan	(Resigned on 20 February 2008)	2/4
Ms. HU Rong	(Resigned on 20 February 2008)	2/4
Non-executive Director		
Mr. ZHANG Suyang	(Resigned on 20 February 2008)	2/4
Independent Non-executive Directors		
Mr. CHOW Shiu Ki	(Appointed on 24 January 2008)	24/29
Mr. LAM Raymond Shiu Cheung	(Appointed on 24 January 2008)	24/29
Mr. LAM Ka Wai, Graham	(Appointed on 29 January 2008)	22/28
Mr. HUNG Randy King Kuen	(Resigned on 20 February 2008)	2/4
Mr. CHEN Xiaohong	(Resigned on 20 February 2008)	0/4
Mr. HE Xingui	(Resigned on 20 February 2008)	0/4

Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Directors will receive details of agenda items for decision and minutes of the committee meetings in advance of each Board meeting.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual.

During the year ended 31 December 2008, Ms. Wang Feixue is the chairman of the Company and is mainly responsible for the management of the Board. Mr. Jin Jianlin is the chief executive officer of the Company and is responsible for the day-to-day management of the business. Ms. Wang and Mr. Jin resigned as the Chairman and chief executive officer of the Company on 20 February 2008 respectively.

While after the resignation of chairman and chief executive officer of the Company on 20 February 2008, the Company does not have any officer with the title "chairman" and "chief executive officer". Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

NON-EXECUTIVE DIRECTORS

According to the code provision A.4.1 of the CG Code, all non-executive Directors should be appointed for a specific term of service.

The former non-executive Director, Mr. Zhang Suyang, was appointed for an initial term of not more than two years and will be renewable automatically for successive term of two years until terminated by not less than one month's notice in writing served by either party or the other.

Each of the former independent non-executive Directors, namely, Mr. Hung Randy King Kuen, Mr. Chen Xiaohong and Mr. He Xingui has entered into a letter of appointment with the Company for a term of three years and subject to termination of either party by giving not less than one month's prior notice in writing.

While after the resignation of the above-named non-executive Director and independent non-executive Directors on 20 February 2008, three independent non-executive Directors were appointed in January 2008, namely Mr. Chow Shiu Ki, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai, Graham. The existing independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

The remuneration committee was established in 2005 with written terms of reference which complies with the Listing Rules. It is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remunerations of executive Directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme and other compensation-related issues. The remuneration committee consults with the Board on its proposals and recommendations.

Corporate Governance Report

As at the date of this annual report, the remuneration committee comprises of two independent non-executive Directors, namely Mr. Lam Ka Wai, Graham, Mr. Lam Raymond Shiu Cheung and one executive Director, namely Ms. Chan Shui Sheung, Ivy. Mr. Lam Ka Wai, Graham was appointed as the chairman of the remuneration committee.

During the year under review, the remuneration committee of the Company held two meetings and significant matters discussed are summarised as follows:

- To review the remuneration package of Directors and senior management

- To recommend the remuneration package of the newly appointed Directors to the Board for approval

Details of the attendance of the Company's remuneration committee members are as follows:

Members		**Attendance**
Mr. LAM Ka Wai, Graham	(Appointed as chairman and member on 20 February 2008)	2/2
Mr. LAM Raymond Shiu Cheung	(Appointed on 20 February 2008)	2/2
Ms. CHAN Shui Sheung, Ivy	(Appointed on 20 February 2008)	2/2
Mr. HUNG Randy King Kuen	(Resigned as chairman and member on 20 February 2008)	0/0
Mr. YUAN Juan	(Resigned on 20 February 2008)	0/0
Mr. HE Xingui	(Resigned on 20 February 2008)	0/0

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or, subject to authorisation by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regards to the balance of skills and experience appropriate to the Group's business.

The nomination committee of the Company was established on 20 February 2008 with written terms of reference which complies with the Listing Rules. It currently consisted of three members, including two independent non-executive Directors, namely Mr. Chow Shiu Ki and Mr. Lam Ka Wai, Graham, and one executive Director, namely Ms. Chan Shui Sheung, Ivy. Mr. Chow Shiu Ki was appointed as the chairman of the nomination committee.

The nomination committee was discharged the following duties:

– review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

– identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

Corporate Governance Report

- assess the independence of independent non-executive Directors; and

- make recommendations to the board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer.

During the year, the nomination committee of the Company held two meetings and significant matters discussed are summarised as follows:

- To be involved in the assessment of the appointment of the Directors and made recommendation to the Board;

- To review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and independence of the independent non-executive Directors and make recommendation to the Board accordingly.

Details of the attendance of the committee members are as follows:

Members		**Attendance**
Mr. CHOW Shiu Ki	(Appointed as chairman and member on 20 February 2008)	2/2
Ms. CHAN Shui Sheung, Ivy	(Appointed on 20 February 2008)	2/2
Mr. LAM Ka Wai, Graham	(Appointed on 20 February 2008)	2/2

AUDIT COMMITTEE

The primary duties of the audit committee of the Company include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted written terms of reference which complies with the Listing Rules.

As at the date of this annual report, the Company's audit committee comprises all three independent non-executive Directors, namely Mr. Lam Ka Wai, Graham, Mr. Lam Raymond Shiu Cheung and Mr. Chow Shiu Ki. Mr. Lam Ka Wai, Graham was appointed as chairman of the audit committee.

The audit committee convened two meetings during the year and the individual attendance of each audit committee member is as follows:

Members		**Attendance**
Mr. LAM Ka Wai, Graham	(Appointed as chairman and member on 20 February 2008)	2/2
Mr. LAM Raymond Shiu Cheung	(Appointed on 20 February 2008)	2/2
Mr. CHOW Shiu Ki	(Appointed on 20 February 2008)	2/2
Mr. HUNG Randy King Kuen	(Resigned as chairman and member on 20 February 2008)	0/0
Mr. CHEN Xiaohong	(Resigned on 20 February 2008)	0/0
Mr. HE Xingui	(Resigned on 20 February 2008)	0/0

Corporate Governance Report

The committee formally met two times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditors as and when necessary, to consider the external auditors' proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgemental areas, accounting principles and practice adopted by the Group; review the external auditors' management letter and management's response; and review the Group's adherence to the CG Code.

The Group's unaudited interim results and audited annual results in respect of the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITOR'S REMUNERATION

During the year, the remuneration in respect of audit services paid/payable to the Company's external auditor, SHINEWING (HK) CPA Limited, is amounted to HK$430,000.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to the shareholders of the Company, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

Accounting Period

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group had kept the accounting records, which disclose with reasonable accuracy of the financial position of the Group, and also enable the preparation of the financial statements in accordance with the applicable accounting standards.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Corporate Governance Report

INTERNAL CONTROLS

The Board is responsible for maintaining a sound and effective internal control system for the Company. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Company's management system and risks existing in the course of arriving at the Company's objectives.

The Directors have conducted an annual review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2008. The review covers all material controls including financial, operational and compliance controls and risk management functions. The audit committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

INVESTOR RELATIONS

To foster effective communications, the Company provided all necessary information to the shareholders in its annual report and interim report. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries. Directors make efforts to attend the AGM so that they may answer any questions from the Company's shareholders.

The Directors, the company secretary or other appropriate members of senior management will also respond to inquires from shareholders and investors promptly.

Independent Auditor's Report

信永中和
ShineWing

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

TO THE SHAREHOLDERS OF ZZNODE TECHNOLOGIES COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ZZNode Technologies Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 83, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
16 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 RMB	2007 RMB
Turnover	8	**23,966,337**	85,117,959
Cost of sales and services		**(18,973,234)**	(64,765,739)
Gross profit		**4,993,103**	20,352,220
Other income	8	**909,689**	5,949,689
Research and development expenditure		**–**	(6,781,326)
Selling and marketing expenses		**(320,132)**	(5,375,655)
Administrative expenses		**(16,649,226)**	(34,554,256)
Finance costs	9	**(177,249)**	–
Decrease in fair value of investment properties	17	**(6,694,796)**	–
Loss on disposal of subsidiaries	35	**(15,351,725)**	–
Other operating expenses		**(638,677)**	–
Share of result of an associate	19	**–**	235,217
Loss before tax		**(33,929,013)**	(20,174,111)
Income tax credit	10	**888,560**	716,934
Loss for the year	11	**(33,040,453)**	(19,457,177)
Loss per share			
– Basic (RMB cents)	15	**(8.19)**	(4.93)

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 RMB	2007 RMB
Non-current assets			
Property, plant and equipment	16	**1,033,548**	16,630,158
Investment properties	17	**8,871,535**	–
Intangible assets	18	**–**	2,281,490
Interest in an associate	19	**–**	6,190,199
Deposit paid for acquisition of investment	20	**21,228,000**	–
Receivable in respect of a terminated transaction – long-term portion	23	**15,479,000**	–
		46,612,083	25,101,847
Current assets			
Inventories	21	**–**	4,501,106
Amounts due from customers for integration solutions		**–**	12,341,882
Trade receivables	22	**7,207,076**	27,413,973
Prepayments, deposits and other receivables		**1,165,638**	5,244,273
Receivable in respect of a terminated transaction – current portion	23	**28,746,000**	–
Financial assets at fair value through profit or loss	24	**7,986,593**	–
Bank deposits	25	**–**	37,003,227
Bank balances and cash	25	**3,887,517**	40,715,159
		48,992,824	127,219,620
Current liabilities			
Trade payables	26	**8,493,069**	12,066,501
Note payables	26	**–**	3,519,934
Advances from customers, accrued charges and other payables		**2,333,035**	16,792,091
Tax liabilities		**–**	556,071
		10,826,104	32,934,597
Net current assets		**38,166,720**	94,285,023
		84,778,803	119,386,870
Capital and reserves			
Share capital	28	**42,815,665**	41,897,665
Reserves		**41,963,138**	77,489,205
		84,778,803	119,386,870

The consolidated financial statements on pages 30 to 83 were approved and authorised for issue by the Board of Directors on 16 April 2009 and are signed on its behalf by:

Tin Ka Pak
Director

Chan Shui Sheung Ivy
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital	Share premium	Special reserve	Statutory surplus reserve	Discretionary reserve	Translation reserve	Capital redemption reserve	Share option reserve	Contribution from shareholders	Retained earnings	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
			(note a)	(note b)	(note c)		(note d)		(note e)		
At 1 January 2007	41,897,665	–	15,535,611	9,610,472	495,820	–	502,335	1,818,368	1,948,695	64,826,587	136,635,553
Loss for the year and total recognised expense for the year	–	–	–	–	–	–	–	–	–	(19,457,177)	(19,457,177)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	2,229,991	(21,497)	–	2,208,494
At 31 December 2007 and 1 January 2008	41,897,665	–	15,535,611	9,610,472	495,820	–	502,335	4,048,359	1,927,198	45,369,410	119,386,870
Exchange difference arising on translation	–	–	–	–	–	(5,974,014)	–	–	–	–	(5,974,014)
Loss for the year	–	–	–	–	–	–	–	–	–	(33,040,453)	(33,040,453)
Total recognised expense for the year	–	–	–	–	–	(5,974,014)	–	–	–	(33,040,453)	(39,014,467)
Issue of shares upon exercise of share options	918,000	5,288,400	–	–	–	–	–	(1,800,000)	–	–	4,406,400
Disposal of subsidiaries	–	–	–	(9,610,472)	(495,820)	–	–	–	–	10,106,292	–
At 31 December 2008	42,815,665	5,288,400	15,535,611	–	–	(5,974,014)	502,335	2,248,359	1,927,198	22,435,249	84,778,803

Notes:

(a) Special reserve represents the difference between the nominal value of the ordinary shares issued by the Company and Beijing Zhizhen Node Technology Development Co., Ltd. ("ZZNode (Beijing)") and the aggregate of share capital and share premium or net assets of the subsidiaries acquired by the Company and ZZNode (Beijing) through the exchange of shares.

(b) As stipulated by the relevant laws and regulations in the People's Republic of China ("PRC"), the Company's subsidiaries in the PRC are required to appropriate 10% of their profit after tax each year calculated in accordance with the accounting principles and financial regulations applicable to companies established in the PRC ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the registered capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into registered capital and expansion of production and operation. For the capitalisation of statutory surplus reserve into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

(c) Discretionary reserve is a distributable reserve and is appropriated from retained earnings in accordance with shareholders' approval. The discretionary reserve can be used for capitalisation of share capital.

(d) Capital redemption reserve represents a non-distributable reserve created in accordance with Section 37.4(a) of the Cayman Islands Law when the Company repurchases its own shares out of retained earnings. The reserve was created by transferring from the retained earnings an amount equivalent to the nominal value of the share repurchased to the capital redemption reserve.

(e) Contribution from shareholders represented balances advanced from shareholders in prior years for the share options granted as set out in note 31(b).

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	NOTE	2008 RMB	2007 RMB
OPERATING ACTIVITIES			
Loss before tax		**(33,929,013)**	(20,174,111)
Adjustments for:			
Finance costs		**177,249**	–
Interest income		**(146,052)**	(1,332,732)
Dividend income		**(80,096)**	–
Depreciation of property, plant and equipment		**478,291**	2,065,125
Impairment loss on trade receivables		**–**	9,198,341
Gain on disposal of financial assets at fair value through profit or loss		**(50,465)**	–
Changes in fair value of financial assets at fair value through profit or loss		**638,677**	–
Amortisation of intangible assets		**380,248**	5,120,651
Discount on acquisition of subsidiaries		**(232,907)**	–
Decrease in fair value of investment properties		**6,694,796**	–
Share of result of an associate		**–**	(235,217)
Loss on disposal of property, plant and equipment		**–**	184,156
Loss on disposal of subsidiaries		**15,351,725**	–
Write-off of intangible assets		**–**	375,000
Share-based payment expenses		**–**	2,229,991
Reverse from forfeited share-based payment during the vesting period		**–**	(21,497)
Operating cash flows before movements in working capital		**(10,717,547)**	(2,590,293)
Decrease (increase) in inventories		**4,293,132**	(612,451)
Increase in amounts due from customers for integration solutions		**(1,795,230)**	(4,397,567)
(Increase) decrease in trade receivables		**(2,715,425)**	12,707,919
Increase in prepayments, deposits and other receivables		**(3,458,297)**	(505,567)
Decrease in amount due from a related party		**–**	950,000
Increase (decrease) in trade payables		**2,496,943**	(965,689)
Increase in note payables		**992,000**	2,879,934
(Decrease) increase in advances from customers, accrued charges and other payables		**(8,013,663)**	6,942,674
Cash (used in) from operations		**(18,918,087)**	14,408,960
PRC enterprise income tax paid		**(138,701)**	(382,029)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(19,056,788)**	14,026,931

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	NOTES	2008 RMB	2007 RMB
INVESTING ACTIVITIES			
Increase in receivable in respect of a terminated transaction		**(44,225,000)**	–
Deposit paid for acquisition of investment		**(21,228,000)**	–
Net cash outflow from acquisition of subsidiaries	34	**(15,510,497)**	–
Purchases of financial assets at fair value through profit or loss		**(10,798,342)**	–
Purchases of property, plant and equipment		**(79,375)**	(3,350,347)
(Decrease) increase in bank deposits		**(8,534,435)**	18,681,993
Net cash inflow from disposal of subsidiaries	35	**81,899,973**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**2,223,537**	–
Interest received		**146,052**	1,332,732
Dividend received		**80,096**	–
Proceeds from disposal of property, plant and equipment		**–**	48,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(16,025,991)**	16,712,378
FINANCING ACTIVITIES			
Loan from a substantial shareholder		**7,000,000**	–
Issue of shares upon exercise of share options		**4,406,400**	–
Repayment of loan from a substantial shareholder		**(7,000,000)**	–
Interest paid		**(177,249)**	–
NET CASH FROM FINANCING ACTIVITIES		**4,229,151**	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(30,853,628)**	30,739,309
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**40,715,159**	9,975,850
Effect of foreign exchange rate changes		**(5,974,014)**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**3,887,517**	40,715,159

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

ZZNode Technologies Company Limited (the "Company") was incorporated in the Cayman Islands and its shares are listed on 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. During the current year, the substantial shareholder of the Company was changed to Betterment Enterprises Limited which is a subsidiary of PME Group Limited, a company incorporated in Cayman Islands and its shares are also listed on the Stock Exchange. The directors do not consider any company to be the ultimate holding company of the Company.

The functional currency of the Company is Hong Kong dollar. The functional currencies for its certain subsidiaries are Renminbi ("RMB"). For the purposes of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 36.

Pursuant to an agreement dated 24 October 2007, the Company agreed to sell (the "Disposal") and Bright Pearl Holdings Limited ("Bright Pearl"), a shareholder of the Company, agreed to purchase the entire interest in Modern Age Investments Limited ("Modern Age") and its subsidiary, Beijing Zhizhen Node Technology Development Co., Ltd. 北京直真節點技術開發有限公司 ("ZZNode (Beijing)") (the "Disposal Group") for a cash consideration of HK$110,000,000 (approximately RMB102,300,000). The Disposal was completed on 21 January 2008.

After the completion of the Disposal, the Group's businesses are carried out by its remaining operating subsidiary, Shanghai Zhizhen Node Technology Development Co., Limited 上海直真節點技術開發有限公司 ("ZZNode (Shanghai)").

The details of the Disposal are set out in the circular dated 21 December 2007.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("Ints") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 - The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to the Consolidated Financial Statements
For the year ended 31 December 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

The adoption of the new HKFRSs 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.

HKFRS (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRS[3]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial instruments: Disclosures-Improving about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK (IFRIC)-Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives[6]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(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 HKFRS 5, 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

The application of HKFRS 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. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations *(Continued)*

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

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

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and 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 Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

Income from sales of self-developed software and sales of third party software and hardware is recognised when goods are delivered or accepted by the customers, whenever is later.

Income from system integration solution is recognised based on the percentage of completion method.

Maintenance, training and other services income is recognised when services are provided.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Integration solution contracts

Where the outcome of an integration solution 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 are included to the extent that they have been agreed with the customer.

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

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

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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasehold land and building

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

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

Government grants

Government grants are recognised as income over the years necessary to match them with the related costs. Grants related to expense items are recognised in the same year as those expenses are charges in the consolidated income statement and are reported separately as other income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 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 when 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less any subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. 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 asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. In addition, 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.

When 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 impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the 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 (other than financial assets or financial liabilities at fair value through profit or loss) that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. 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 classifies its financial assets into one of the following categories, including financial assets at fair value through profit or loss ("FVTPL") and 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, of which interest income is included in net gains or losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL represents mainly financial assets held for trading.

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

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, receivable in respect of a terminated transaction, 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 on impairment loss on financial assets below).

Impairment loss on financial assets

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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 average credit period, as well as 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 and 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 generally classified into 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities (including trade payables, note payables, accrued charges and other payables) 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.

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 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 or payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share option granted to employees under share option scheme and share incentive scheme

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions (Continued)

Share options granted to consultants under share option scheme and share incentive scheme

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet dates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of loss on receivables

Assessment of potential impairment in respect of receivables is made based on assessment of the recoverability of trade receivables, other receivables and receivable in respect of a terminated transaction as at 31 December 2008. The identification of potential impairment requires management judgement and estimates, based on available facts and the consideration of the circumstances. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying values of trade receivables, other receivables and a receivable in respect of a terminated transaction and the impairment provision/written back in the period in which the estimate has been changed.

Share-based payment expenses

The share-based payment expenses is subject to the limitations of the Black-Scholes-Merton Option Pricing Model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists principally of equity comprising share capital and reserves.

Management of the Group reviews the capital structure regularly, taking into account the cost and risk associated with the capital.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 RMB	2007 RMB
Financial assets		
Financial assets at FVTPL	**7,986,593**	–
Loans and receivables (including cash and cash equivalents)	**56,447,776**	106,869,019
	64,434,369	106,869,019
Financial liabilities		
Liabilities measured at amortised cost	**10,826,104**	27,051,022

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, receivable in respect of a terminated transaction, bank deposits, bank balances and cash, trade payables, note payables, accrued charges and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of interest rate risk, foreign currency risk and other price risk. Market risk exposures are further measured by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing marketing rate on bank deposits and bank balances for the year ended 31 December 2008. The Group is exposed to cash flow interest rate risk due to the bank deposit at prevailing market rates and also exposed to fair value interest rate risk which is mainly attributable to the fixed rate bank balance for the year ended 31 December 2007 (see note 25 for details).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Interest rate sensitivity

At the balance sheet date, if interest rates had been 100 basis points (2007: 100 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would decrease/increase by approximately RMB39,000 (2007: RMB777,000).

Foreign currency risk

Certain bank balances of the Group are not denominated in RMB, the functional currency of the Group. Therefore, the Group subjects to foreign currency risk. The directors monitors foreign exchange exposure and will consider hedging the potential foreign currency exposure should a need arise.

Foreign currency sensitivity

There are no financial assets and financial liabilities denominated in currencies other than the functional currency as at 31 December 2008.

At 31 December 2007, if there is a 5% increase/decrease of RMB against the relevant foreign currencies, the Group's loss for the year ended 31 December 2007 would increase/decrease by approximately RMB602,000.

Other price risk

The Group is exposed to equity price risk through its investments in financial assets at FVTPL. The directors manage this exposure by maintaining a portfolio of investments with different risks. The Group's other price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

Other price sensitivity

The sensitivity analyses below have been determined based on the Group's exposure to equity price risks at the balance sheet date.

If the prices of the respective equity instruments had been 10% (2007: Nil) higher/lower, the Group's loss for the year would decrease/increase by approximately RMB799,000 (2007: Nil) as a result of the changes in the fair values of financial assets at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is mainly arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables 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 reduced.

The Group has its credit risk concentrated in a few customers. As at 31 December 2008, approximately 87% (2007: 63%) of the Group's trade receivables are receivables from its major customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintain 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's financial liabilities (including trade payables, note payables, accrued charges and other payables) are all due within twelve months from the relevant balance sheet dates.

(c) Fair value

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

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding carrying amounts.

The directors consider that the fair value the long-term portion of receivable in respect of a terminated transaction approximates to its carrying amount as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The Group is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC. The Group's activities including the sales of self-developed software and third party software and hardware, the provision of system integration services and maintenance, training and other services, are delivered as part of total solution services provided by the Group. The rental income is generated from the operating leases of Group's investment properties.

Segment information about these businesses is presented below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	System integration services RMB	Maintenance, training and other services RMB	Property investment RMB	Consolidated RMB
TURNOVER						
External sales	2,729,141	4,654,458	–	16,540,282	42,456	23,966,337
RESULT						
Segment result	(348,169)	1,347,245	–	3,664,656	(7,416,922)	(2,753,190)
Unallocated corporate expenses						(16,463,205)
Unallocated other income						816,356
Finance costs						(177,249)
Loss on disposal of subsidiaries						(15,351,725)
Loss before tax						(33,929,013)
Income tax credit						888,560
Loss for the year						(33,040,453)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business segments *(Continued)*

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	System integration services RMB	Maintenance, training and other services RMB	Property investment RMB	Consolidated RMB
ASSETS						
Segment assets	735,836	1,330,376	–	5,140,865	8,871,535	16,078,612
Unallocated corporate assets						79,526,295
Consolidated total assets						95,604,907
LIABILITIES						
Segment liabilities	8,493,069	–	–	–	14,215	8,507,284
Unallocated corporate liabilities						2,318,820
Consolidated total liabilities						10,826,104

OTHER INFORMATION

For the year ended 31 December 2008

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	System integration services RMB	Maintenance, training and other services RMB	Property investment RMB	Consolidated RMB
Amortisation of intangible assets	380,248	–	–	–	–	380,248
Depreciation	313,249	–	–	–	–	313,249
Unallocated depreciation						165,042
Total depreciation						478,291
Capital expenditure	5,200	–	–	–	15,566,331	15,571,531
Unallocated capital expenditure						812,164
Total capital expenditure						16,383,695
Decrease in fair value of investment properties	–	–	–	–	6,694,796	6,694,796

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business segments *(Continued)*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	System integration services RMB	Maintenance, training and other services RMB	Property investment RMB	Consolidated RMB
TURNOVER						
External sales	36,628,089	33,129,936	803,240	14,556,694	–	85,117,959
RESULT						
Segment result	(780,821)	3,247,463	277,179	10,454,135	–	13,197,956
Unallocated corporate expenses						(34,968,117)
Unallocated other income						1,360,833
Share of result of an associate						235,217
Loss before tax						(20,174,111)
Income tax credit						716,934
Loss for the year						(19,457,177)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(a) Business segments *(Continued)*

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	System integration services RMB	Maintenance, training and other services RMB	Property investment RMB	Consolidated RMB
ASSETS						
Segment assets	22,989,426	20,808,834	228,790	5,427,298	–	49,454,348
Unallocated corporate assets						96,676,920
Interest in an associate						6,190,199
Consolidated total assets						152,321,467
LIABILITIES						
Segment liabilities	–	17,394,005	–	–	–	17,394,005
Unallocated corporate liabilities						15,540,592
Consolidated total liabilities						32,934,597

OTHER INFORMATION

For the year ended 31 December 2007

	Sales of self-developed software RMB	Sales of third party software and hardware RMB	System integration services RMB	Maintenance, training and other services RMB	Property investment RMB	Consolidated RMB
Amortisation of intangible assets	5,120,651	–	–	–	–	5,120,651
Write-off of intangible assets	375,000	–	–	–	–	375,000
Impairment loss on trade receivables	9,198,341	–	–	–	–	9,198,341
Depreciation	2,065,125	–	–	–	–	2,065,125
Loss on disposal of property, plant and equipment	184,156	–	–	–	–	184,156
Capital expenditure	3,350,347	–	–	–	–	3,350,347

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

(b) Geographical segments

The following provides an analysis of the Group's turnover by geographical markets, irrespective of the origin of the services:

	Turnover	
	2008	2007
	RMB	RMB
Hong Kong	**42,456**	–
PRC	**23,923,881**	85,117,959
	23,966,337	85,117,959

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2008	2007	**2008**	2007
	RMB	RMB	**RMB**	RMB
Hong Kong	**84,921,906**	–	**16,378,495**	–
PRC	**10,683,001**	152,321,467	**5,200**	3,350,347
	95,604,907	152,321,467	**16,383,695**	3,350,347

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

8. TURNOVER AND OTHER INCOME

Turnover

	2008 RMB	2007 RMB
Sales of self-developed software	**2,729,141**	36,628,089
Sales of third party software and hardware	**4,654,458**	33,129,936
System integration services	**–**	803,240
Maintenance, training and other services	**16,540,282**	14,556,694
Rental income	**42,456**	–
	23,966,337	85,117,959

Other Income

	2008 RMB	2007 RMB
Value-added tax refund income (note)	**93,333**	4,588,856
Dividend income	**80,096**	–
Discount on acquisition of subsidiaries (note 34)	**232,907**	–
Interest income	**146,052**	1,332,732
Gain on disposal of financial assets at fair value through profit or loss	**50,465**	–
Others	**306,836**	28,101
	909,689	5,949,689

Note:

In accordance with the Notice on Certain Issues of Tax Policies to Encourage the Development of Software and Integrated Circuits Industries (關於鼓勵軟件生產和集成電路產業發展有關稅收政策問題的通知) jointly issued by the Ministry of Finance, the State of General Administration of Taxation and the State of General Administration of Customs, an ordinary taxpayer shall be refunded, after subscribing 17% value-added tax on the income from sales of self-developed software products, an amount of 14% value-added tax on such income for the period from 24 June 2000 to 31 December 2010. On 24 January 2000, the Beijing Municipal Science and Technology Commission issued a Software Enterprise Verification Certificate (軟件企業認定證書) to ZZNode (Beijing), and on 20 February 2002, the Shanghai Information Office issued a Software Enterprise Verification Certificate (軟件企業認定證書) to ZZNode (Shanghai). Both ZZNode (Beijing) and ZZNode (Shanghai) are therefore entitled to receive refund of 14% of value-added tax paid from sales of self-developed software products after the tax refund notice (稅收收入退款書) has been approved. This tax refund was recognised as other income in the period upon the relevant conditions were fulfilled.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

9. FINANCE COSTS

	2008	2007
	RMB	RMB
Interest on:		
Bank overdrafts	**116**	–
Loan from a substantial shareholder (note 27)	**177,133**	–
	177,249	–

10. INCOME TAX CREDIT

	2008	2007
	RMB	RMB
Deferred tax (note 29)	**888,560**	716,934

The statutory tax rate for ZZNode (Beijing) and ZZNode (Shanghai) is 25% (2007: 15%) and 18% (2007: 15%) respectively. However, they receive preferential tax treatment as explained below:

ZZNode (Beijing) is recognised as an advanced technology and software enterprise according to the Changping District Tax Notices [1999] No. 176 and [2003] No. 310 of Provisional Regulation on Test Plot of New Technology Industry and Development in Beijing Municipality (北京市新技術產業開發試驗暫行條例) approved by the Local Tax Bureau of Changping District of Beijing Municipality. It is exempted from the PRC Enterprise Income Tax for the three years ended 31 December 2002 and is entitled to a 50% tax reduction for the three years ended 31 December 2005. The tax reduction treatment was further extended for three years up to the year ended 31 December 2008 at a tax rate of 10% according to the Changping District Tax Notice [2007] No. 0085 of《關於對北京直真節點技術開發有限公司申請享受先進技術的企業所得税減免税問題的批復》.

ZZNode (Shanghai) is also recognised as an advanced technology and software enterprise according to the Shanghai State Tax Notices 滬國稅浦政 [2002] No. 70 of (Circular of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs on the Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries)《關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》approved by the State Tax Bureau and Local Tax Bureau of Pudong New District of Shanghai Municpality. It is exempted from the PRC Enterprise Income Tax for the two years ended 31 December 2003 and entitled to a 50% tax reduction for the three years ended 31 December 2006. Therefore, ZZNode (Shanghai) is subject to PRC Enterprise Income Tax at 15% for the year ended 31 December 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

10. INCOME TAX CREDIT *(CONTINUED)*

On 16 March 2007, the 10th National People Congress of PRC approved the PRC Enterprise Income Tax Law ("EIT Law"), being effective on 1 January 2008. Applicable income tax rate of entities within the Group currently apply 33% tax rate will be subject to 25% from 1 January 2008. According to Guo Fa [2007] No. 39, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", from 1 January 2008, the lower preferential tax rates enjoyed by certain enterprises shall gradually be increased to the statutory tax rate of 25% within 5 years from 1 January 2008.

For entities still subject to the entitlement of unutilised tax holidays (including two-year exemption and three-year half rate) under the existing preferential tax treatments, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. Therefore, ZZNode (Shanghai) is subject to PRC Enterprise Income Tax at 18% for the year ended 31 December 2008.

No provision for PRC Enterprise Income Tax was made for 2008 since the assessable profit is wholly absorbed by tax losses brought forward. No provision for PRC Enterprise Income tax was made in 2007 as the Company's subsidiaries in the PRC incurred tax losses.

No provision for Hong Kong profits tax was made in the consolidated income statement for both 2008 and 2007 as the Group did not have any assessable profit arising in Hong Kong for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

10. INCOME TAX CREDIT *(CONTINUED)*

Income tax credit for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008	2007
	RMB	RMB
Loss before tax	**(33,929,013)**	(20,174,111)
Tax at the domestic income tax rate of 18% (2007: 15%) (note a)	**(6,107,222)**	(3,026,117)
Tax effect of share of result of an associate	**–**	(35,283)
Tax effect of expenses not deductible for tax purpose	**4,735,138**	2,151,942
Tax effect of income not taxable for tax purpose	**(72,720)**	(709,606)
Tax effect of expenses with additional tax preferential deductions (note b)	**–**	(488,359)
Tax effect of change in tax rate due to change in applicable tax rate	**–**	358,467
Tax effect of tax losses not recognised	**919,826**	89,153
Tax effect of deferred tax assets not recognised	**225,323**	942,869
Effect of different tax rates of subsidiaries operating in other jurisdictions	**78,760**	–
Utilisation of tax losses previously not recognised	**(667,665)**	–
Income tax credit for the year	**(888,560)**	(716,934)

Notes:

(a) Being the statutory tax rate of ZZNode (Shanghai).

(b) According to the relevant tax rules in the PRC, the expenses incurred by enterprises in relation to the research and development of new products and technologies are entitled to an additional 50% deduction on these expenses as an incentive for the enterprises to be new products.

Details of movements in the deferred tax liabilities are set out in note 29.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2008	2007
	RMB	RMB
Directors' emoluments (note 12)	**2,135,929**	3,839,853
Other staff costs	**1,322,677**	26,169,738
Retirement benefits scheme contributions excluding directors' emoluments	**687,299**	2,307,961
Total staff costs	**4,145,905**	32,317,552
Auditor's remuneration	**430,000**	976,390
Impairment loss on trade receivables	**–**	9,198,341
Share-based payment expenses	**–**	2,208,494
Depreciation of property, plant and equipment	**478,291**	2,065,125
Loss on disposal of property, plant and equipment	**–**	184,156
Changes in fair value of financial assets at fair value through profit or loss (included in other operating expenses)	**638,677**	–
Write-off of intangible assets	**–**	375,000
Net exchange loss	**42**	31,505
Amortisation of intangible assets	**380,248**	5,120,651
Operating lease rentals in respect of rented premises	**1,912,031**	2,811,909

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors were as follows:

For the year ended 31 December 2008

		Other emoluments		
	Fees RMB	Salaries and other benefits RMB	Retirement benefits scheme contributions RMB	Total emoluments RMB
Executive directors:				
Liu Yong Fei (Note 1)	–	667,676	6,192	673,868
Chan Shui Sheung, Ivy (Note 2)	–	346,651	15,177	361,828
So Wai Lam (Note 2)	–	215,733	9,958	225,691
Tin Ka Pak (Note 1)	–	133,535	6,162	139,697
Jin Jianlin (Note 5)	–	83,976	2,629	86,605
Wang Feixue (Note 5)	–	54,652	2,919	57,571
Yuan Juan (Note 5)	–	40,908	2,919	43,827
Christian Emil TOGGENBURGER (Note 3)	–	37,092	1,855	38,947
Hu Rong (Note 5)	–	20,646	1,426	22,072
Non-executive director:				
Zhang Suyang (Note 5)	–	–	–	–
Independent non-executive directors:				
Chow Shiu Ki (Note 2)	149,366	–	–	149,366
Lam Raymond Shiu Cheung (Note 2)	149,366	–	–	149,366
Lam Ka Wai, Graham (Note 4)	147,226	–	–	147,226
Chen Xiaohong (Note 5)	13,790	–	–	13,790
He Xingui (Note 5)	13,790	–	–	13,790
Hung Randy King Kuen (Note 5)	12,285	–	–	12,285
Total	485,823	1,600,869	49,237	2,135,929

Note 1: Appointed on 2 June 2008

Note 2: Appointed on 24 January 2008

Note 3: Appointed on 24 January 2008 and retired on 29 May 2008

Note 4: Appointed on 29 January 2008

Note 5: Resigned on 20 February 2008

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

12. DIRECTORS' EMOLUMENTS *(CONTINUED)*

For the year ended 31 December 2007

		Other emoluments			
	Fees RMB	Salaries and other benefits RMB	Retirement benefits scheme contributions RMB	Share-based payments RMB	Total emoluments RMB
Executive directors:					
Wang Feixue	–	396,317	21,164	698,690	1,116,171
Jin Jianlin	–	608,960	19,064	698,690	1,326,714
Yuan Juan	–	296,653	21,164	530,651	848,468
Hu Rong	–	149,718	10,340	88,442	248,500
Non-executive director:					
Zhang Suyang	–	–	–	–	–
Independent non-executive directors:					
Hung Randy King Kuen	100,000	–	–	–	100,000
Chen Xiaohong	100,000	–	–	–	100,000
He Xingui	100,000	–	–	–	100,000
Total	300,000	1,451,648	71,732	2,016,473	3,839,853

None of the directors has waived any emoluments during the two years ended 31 December 2008 and 2007.

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13. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2007: four) were directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining one individual in 2007 were as follows:

	RMB
Salaries and other benefits	352,501
Retirement benefits scheme contributions	42,329
	394,830

The emolument was within the following band:

	Number of employee	
	2008	2007
Nil to RMB1,000,000	**–**	1

During the two years ended 31 December 2008 and 2007, no emolument was paid by the Group to the other directors or the highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDEND

No dividend was declared and paid during the year (2007: Nil). The directors do not recommend the payment of any dividend in respect of the year.

15. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of RMB 33,040,453 (2007: RMB19,457,177) and weighted average number of ordinary shares of 403,661,202 (2007: 395,000,000).

For the year ended 31 December 2007, no diluted loss per share has been presented because the exercise price of the Company's share options was higher than the average market price of the Company's shares and there were no other potential ordinary shares outstanding for the year.

For the year ended 31 December 2008, no diluted loss per share has been presented because there were no potential ordinary shares outstanding for the year.

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture and fixtures	Computers and equipment	Motor vehicles	Total
	RMB	RMB	RMB	RMB	RMB	RMB
COST						
At 1 January 2007	12,189,762	3,618,000	75,464	7,366,770	1,130,869	24,380,865
Additions	2,364,587	–	164,350	821,410	–	3,350,347
Disposals	–	–	–	(404,122)	(233,907)	(638,029)
At 31 December 2007	14,554,349	3,618,000	239,814	7,784,058	896,962	27,093,183
Acquired on acquisition of a subsidiary	–	–	498,626	239,363	–	737,989
Additions	–	–	71,795	7,580	–	79,375
Disposal of subsidiaries	(14,554,349)	(3,618,000)	(161,264)	(6,625,983)	(896,962)	(25,856,558)
At 31 December 2008	–	–	648,971	1,405,018	–	2,053,989
DEPRECIATION						
At 1 January 2007	926,423	2,766,375	71,487	4,622,157	417,331	8,803,773
Provided for the year	689,150	259,093	10,709	985,720	120,453	2,065,125
Eliminated on disposal	–	–	–	(366,507)	(39,366)	(405,873)
At 31 December 2007	1,615,573	3,025,468	82,196	5,241,370	498,418	10,463,025
Provided for the year	57,429	–	127,404	284,181	9,277	478,291
Eliminated upon disposal of subsidiaries	(1,673,002)	(3,025,468)	(76,114)	(4,638,596)	(507,695)	(9,920,875)
At 31 December 2008	–	–	133,486	886,955	–	1,020,441
CARRYING VALUES						
At 31 December 2008	–	–	515,485	518,063	–	1,033,548
At 31 December 2007	12,938,776	592,532	157,618	2,542,688	398,544	16,630,158

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For the Year Ended 31 December 2008

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	5%
Leasehold improvements	Over the term of the leases
Furniture and fixtures	20%
Computers and equipment	20%
Motor vehicles	12.5%

17. INVESTMENT PROPERTIES

	RMB
FAIR VALUES	
At 1 January 2008	–
Acquired on acquisition of subsidiaries	15,566,331
Decrease in fair value recognised in the consolidated income statement	(6,694,796)
At 31 December 2008	8,871,535

The Group's investment properties are situated in Hong Kong and are held under medium-term leases. All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2008 have been arrived at on the basis of a valuation carried out on that date by Jointgoal Surveyors Limited, an independent qualified professional valuer not connected with the Group. The valuation, which conforms to Hong Kong Institute of Surveyors Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

Property rental income earned during the year was RMB42,456 (2007: Nil). They generated a rental yield of 0.48% (2007: Nil) for the year ended 31 December 2008.

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18. INTANGIBLE ASSETS

	Software purchased RMB	**Software development** RMB	**Total** RMB
COST			
At 1 January 2007	1,500,000	13,925,545	15,425,545
Write-off	(1,500,000)	–	(1,500,000)
At 31 December 2007	–	13,925,545	13,925,545
Disposal of subsidiaries	–	(13,925,545)	(13,925,545)
At 31 December 2008	–	–	–
AMORTISATION			
At 1 January 2007	125,000	6,523,404	6,648,404
Charge for the year	–	5,120,651	5,120,651
Write-off	(125,000)	–	(125,000)
At 31 December 2007	–	11,644,055	11,644,055
Charge for the year	–	380,248	380,248
Released upon disposal of subsidiaries	–	(12,024,303)	(12,024,303)
At 31 December 2008	–	–	–
CARRYING VALUES			
At 31 December 2008	–	–	–
At 31 December 2007	–	2,281,490	2,281,490

Software purchased is acquired from an independent third party and software development is related to internally-generated software expenditure in prior years. The above intangible assets are amortised on a straight-line basis over their estimated useful lives of two years after they are available for use.

The Group wrote off software purchased from an independent third party at its carrying value of RMB1,375,000 during the year ended 31 December 2007. After negotiation, the supplier agreed to waive RMB1,000,000 of the purchase price payable, resulting in a net loss of RMB375,000.

Notes to the Consolidated Financial Statements

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19. INTEREST IN AN ASSOCIATE

	2008 RMB	2007 RMB
Cost of investment in an associate		
Unlisted	–	8,100,000
Share of post-acquisition losses	–	(1,909,801)
	–	6,190,199

At 31 December 2007, the Group had a 27% equity interests in Shanghai Beimanyuanmai Information Technology Company Ltd. 上海貝曼元脉信息技術有限公司 which is established and operated in the PRC. The principal activities of the associate are design, production and development of telecommunications terminal equipment.

During the year ended 31 December 2008, the Group disposed of the entire equity interests in the associate through the disposal of the Disposal Group.

The summarised financial information in respect of the associate is set out below:

	2008 RMB	2007 RMB
Total assets	–	48,464,049
Total liabilities	–	(25,537,385)
Net assets	–	22,926,664
Group's share of net assets of the associate	–	6,190,199
Revenue	–	70,056,410
Profit for the year	–	871,176
Group's share of profit of the associate for the year	–	235,217

During the year ended 31 December 2008, the directors considered the share of results in respect of the associate attributable to the Group up to the date of Disposal is immaterial. Accordingly, no results of the associate were accounted for.

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For the Year Ended 31 December 2008

20. DEPOSIT PAID FOR ACQUISITION OF INVESTMENT

The balance as at 31 December 2008 represented HK$24,000,000 (approximately RMB21,228,000) paid as a deposit for the potential acquisition of Precious Luck Enterprises Limited. Details of the transaction are set out in the announcements made by the Company dated 13 May 2008, 3 June 2008, 30 June 2008, 29 July 2008, 1 September 2008, 30 September 2008, 30 December 2008, 30 January 2009 and 26 March 2009.

As of the date on which the consolidated financial statements are being approved by the directors, the consideration and payment mechanism in respect of the transactions are still under negotiation and not yet concluded.

21. INVENTORIES

	2008	2007
	RMB	RMB
Goods for resale	–	4,447,259
Spare parts	–	53,847
	–	4,501,106

22. TRADE RECEIVABLES

	2008	2007
	RMB	RMB
Trade receivables	**7,207,076**	37,094,081
Less: accumulated impairment losses	–	(9,680,108)
	7,207,076	27,413,973

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables net of accumulated impairment losses at the balance sheet date:

	2008	2007
	RMB	RMB
0-90 days	**6,912,287**	17,900,021
91-180 days	**294,789**	1,505,009
181-270 days	–	6,696,053
271-360 days	–	99,405
More than 1 year	–	1,213,485
	7,207,076	27,413,973

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22. TRADE RECEIVABLES *(CONTINUED)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and define credit limits for that customer. The credit limits granted to customers are reviewed periodically and when necessary. Over 95% of the trade receivables are neither past due nor impaired at 31 December 2008 (2007: 71%). These trade receivables comprise principally receivables from strategic partners and infrastructural telecommunications service providers with a reputable credit standing.

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately RMB294,000 which are past due at 31 December 2008 (2007: RMB8,009,000) and which the Group has not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables at 31 December 2008 is approximately 135 days (2007: 230 days).

Movements of accumulated impairment losses on trade receivables are set out as follows:

	2008	2007
	RMB	RMB
Balance at 1 January	**9,680,108**	481,767
Impairment loss recognised	**–**	9,198,341
Disposal of subsidiaries	**(9,680,108)**	–
Balance at 31 December	**–**	9,680,108

For the year ended 31 December 2007, RMB9,198,341 were assessed to be individually impaired because these receivables have been overdue for a prolonged period and considered doubtful by the directors of the Company at 31 December 2007.

23. RECEIVABLE IN RESPECT OF A TERMINATED TRANSACTION

As at 31 December 2008, the Group had a receivable of HK$50,000,000 (approximately RMB44,225,000) in respect of a terminated transaction. The details of the termination of the transaction are set out in the announcement of the Company dated 22 December 2008. The balance is unsecured and bears interest at 3 per cent per annum.

	2008
	RMB
Long-term portion	15,479,000
Current portion	28,746,000
	44,225,000

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24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 RMB	2007 RMB
Listed equity securities held in Hong Kong for trading, at fair value	**7,986,593**	–

25. BANK DEPOSITS, BANK BALANCES AND CASH

During the year ended 31 December 2008, the bank deposits carry fixed interest rates ranging from 1.71% to 3.42% per annum (2007: 2.88% to 3.42% per annum). The maturities of bank deposits were over three months but within one year and therefore classified as current assets.

Included in bank deposits are the following amounts denominated in a currency other than the functional currency of RMB of the Group:

	2008 RMB	2007 RMB
Hong Kong dollar	–	11,963,634
United State dollar	–	77,633
Singapore dollar	–	3,130

Bank balances carry interest at market rates which range from 0.05% to 0.38% per annum (2007: 0.72% per annum).

26. TRADE PAYABLES AND NOTE PAYABLES

	2008 RMB	2007 RMB
Trade payables	**8,493,069**	12,066,501
Note payables	–	3,519,934
	8,493,069	15,586,435

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26. TRADE PAYABLES AND NOTE PAYABLES *(CONTINUED)*

The following is an aged analysis of trade payables and note payables at the balance sheet date:

	2008	2007
	RMB	RMB
Less than 90 days	**8,493,069**	10,170,330
More than 90 days but within one year	**–**	5,416,105
	8,493,069	15,586,435

27. RELATED PARTY TRANSACTIONS

Save as the Disposal set out in note 35, during the year ended 31 December 2008, the Group drawn a loan of amount HK$7,000,000 (approximately RMB6,191,500) from Richcom Group Limited ("Richcom") and interest expenses of amount HK$200,000 (approximately RMB177,000) was paid thereto. Richcom is a wholly-owned subsidiary of PME Group Limited, which is a substantial shareholder of the Company.

Compensation of key management personnel

The remuneration of directors and other members of key management during the two years ended 31 December 2008 and 2007 was disclosed in notes 12 and 13 respectively.

28. SHARE CAPITAL

	Number of shares		Share capital		Equivalent nominal value of ordinary shares	
	2008	2007	**2008**	2007	**2008**	2007
			HK$	HK$	**RMB**	RMB
Ordinary shares of HK$0.1 each						
Authorised:						
At beginning and end of the year	**1,000,000,000**	1,000,000,000	**100,000,000**	100,000,000	**106,000,000**	106,000,000
Issued:						
At beginning of the year	**395,000,000**	395,000,000	**39,500,000**	39,500,000	**41,897,665**	41,897,665
Issue of shares upon exercise of share options	**10,000,000**	–	**1,000,000**	–	**918,000**	–
At end of the year	**405,000,000**	395,000,000	**40,500,000**	39,500,000	**42,815,665**	41,897,665

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28. SHARE CAPITAL *(CONTINUED)*

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the two years ended 31 December 2008 and 2007.

On 21 January 2008, 10,000,000 share options were exercised by the directors of the Company at a subscription price of HK$0.48 per share, for a total consideration of HK$4,800,000 (approximately RMB4,406,400), resulting in the issue of 10,000,000 new ordinary shares of HK$0.1 each.

All new shares issued during the year ended 31 December 2008 rank pari passu in all respects with other shares in issue.

29. DEFERRED TAX LIABILITIES/(ASSETS)

The following are the major deferred tax liabilities/(assets) recognised during the year:

	Fair value changes of investment properties	Deferred software development expenditure	Impairment loss on trade receivables	Total
	RMB	RMB	RMB	RMB
At 1 January 2007	–	740,214	(23,280)	716,934
Credit to income for the year	–	(768,097)	(307,304)	(1,075,401)
Effect of change in tax rate	–	370,107	(11,640)	358,467
At 31 December 2007 and 1 January 2008	–	342,224	(342,224)	–
Disposal of subsidiaries	–	(342,224)	342,224	–
Acquired on acquisition of subsidiaries	888,560	–	–	888,560
Credit to income for the year	(888,560)	–	–	(888,560)
At 31 December 2008	–	–	–	–

As at 31 December 2008, the Group has unused tax losses of approximately RMB56,727,000 (2007: RMB751,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

As at 31 December 2008, the Group has deductible temporary difference of approximately RMB982,000 (2007: RMB8,567,000) available for offset against future profits. A deferred tax asset of approximately RMB2,281,000 had been recognised as at 31 December 2007 in respect of such deductible temporary difference (2008: Nil). No deferred tax asset has been recognised in respect of the remaining RMB982,000 (2007: RMB6,286,000) due to the unpredictability of future profit streams.

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30. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the note receivables discounted with recourse of RMB16,963,953 was fully settled and the related note receivables were derecognised upon settlement.

31. SHARE-BASED PAYMENTS

Equity-settled share options schemes:

(a) Share option scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company on 31 October 2004 (the "Share Option Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries who meet the relevant criteria set out in the Share Option Scheme (the "Participants") as incentives and rewards for their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 30 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the options, the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant and the nominal value of the shares.

The share options are exercisable at any time during a year of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as may be stipulated by the Board of the Directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Share Option Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full would result in such person's maximum entitlement exceeding 1% of the number of shares of the Company in issue.

During the year ended 31 December 2008, no option was granted under the Share Option Scheme and all the outstanding options are either exercised or cancelled upon the resignation of directors and senior management during the year.

As at 31 December 2007, the number of options granted under the Share Option Scheme was 24,900,000, representing 6.3% of the Company's shares in issue as at that date.

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31. SHARE-BASED PAYMENTS *(CONTINUED)*

(a) Share option scheme *(Continued)*

Movements of the share options issued under the Share Option Scheme held by Participants during the year ended 31 December 2008 were:

For the year ended 31 December 2008

		Number of share options				
	Option category	**At 1/1/2008**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**At 31/12/2008**
Directors	**2006**	**10,000,000**	**–**	**10,000,000**	**–**	**–**
Directors	**2007**	**11,400,000**	**–**	**–**	**(11,400,000)**	**–**
Senior management	**2007**	**3,500,000**	**–**	**–**	**(3,500,000)**	**–**
Total		**24,900,000**	**–**	**10,000,000**	**(14,900,000)**	**–**

Movements of the share options issued under the Share Option Scheme held by Participants during the year ended 31 December 2007 were:

For the year ended 31 December 2007

		Number of share options				
	Option category	At 1/1/2007	Granted during the year	Exercised during the year	Cancelled during the year	At 31/12/2007
Directors	2006	10,000,000	–	–	–	10,000,000
Directors	2007	–	11,400,000	–	–	11,400,000
Senior management	2007	–	3,500,000	–	–	3,500,000
Total		10,000,000	14,900,000	–	–	24,900,000

Details of specific categories of options are as follows:

Category	**Date of grant**	**Exercise period**	**Exercise price**
2006 Directors	20/1/2006	20/1/2007 - 20/1/2011	HK$0.48
2007 Directors	23/4/2007	24/4/2008 - 24/4/2012	HK$0.50
2007 Senior management	23/4/2007	24/4/2008 - 24/4/2012	HK$0.50

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31. SHARE-BASED PAYMENTS *(CONTINUED)*

(a) Share option scheme *(Continued)*

The share options granted to the directors in 2006 and 2007 are fully vested at grant date. The share options granted to the senior management in 2007 are exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each, reaching 100% on 24 April 2011. The share options are cancelled upon disposal of subsidiaries and resignation of directors and senior management during the year ended 31 December 2008.

The estimated fair value per share option granted on 23 April 2007 was RMB0.18 for share options granted to directors and RMB0.22 for share options granted to senior management, respectively. The fair value of the options issued under the Share Option Scheme was calculated using the Black-Scholes Model. The inputs into the model were as follows:

	Date of grant 23/4/2007
Share price	HK$0.50
Exercise price	HK$0.50
Expected volatility	50.46%
Expected life (year)	3
Risk-free rate	3.95%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

In respect of the share option exercised during the year, the weighted average share price at the date of exercise is HK$0.79.

The Group recognised the total expense of RMB2,229,991 for the year 31 December 2007 in relation to the above share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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31. SHARE-BASED PAYMENTS *(CONTINUED)*

(b) Share incentive scheme

The share incentive scheme was established by three shareholders of the Company, representing 18,000,000 shares and 4.5% of the enlarged issued share capital of the Company after the listing of the Company ("Share Incentive Scheme"). The purpose of the Share Incentive Scheme is to issue options to selected employees, officers, consultants, agents and advisers of the Group who meet the relevant eligibility criteria set out in the Share Incentive Scheme (the "Eligible Participants"). The employee participants must have been employed by a member of the Group prior to the listing of the Company in November 2004.

The Share Incentive Scheme shall remain in full force and effect for so long as is necessary to give effect to the issue and exercise of options granted in accordance with its terms.

The exercise price per share under the Share Incentive Scheme is HK$0.20 and each tranche of option has a term of five years from the first exercise date, after which any unexercised portion of an option shall lapse.

Each option will be exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each year, reaching 100%.

At 31 December 2007, the outstanding number of options granted under the Share Incentive Scheme was 8,636,400, representing 2.12% of the shares of the Company in issue at that date.

Movements of the share options issued under the Share Incentive Scheme held by Eligible Participants during the two years ended 31 December 2008 and 2007 were set out below:

		Number of share options					
	Option category	At 1/1/2007	Exercised during the year	Forfeited during the year	At 31/12/2007 and 1/1/2008	Cancelled during the year	At 31/12/2008
Employees	2004	7,331,400	(880,000)	(1,026,000)	5,425,400	(5,425,400)	–
Consultants	2004	990,000	–	–	990,000	(990,000)	–
Consultants	2005	1,000,000	(24,000)	–	976,000	(976,000)	–
Employees	2006	1,080,000	–	(108,000)	972,000	(972,000)	–
		10,401,400	(904,000)	(1,134,000)	8,363,400	(8,363,400)	–

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31. SHARE-BASED PAYMENTS *(CONTINUED)*

(b) Share incentive scheme *(Continued)*

Details of specific categories of options are as follows:

Category	Date of grant	Exercise period	Exercise price
2004	27/10/2004	18/11/2005 - 18/11/2009	HK$0.2
2005	22/12/2005	21/12/2006 - 21/12/2010	HK$0.2
2006	14/3/2006	14/3/2007 - 14/3/2011	HK$0.2

During the two years ended 31 December 2008 and 2007, no options were granted. All the share options were cancelled during the year ended 31 December 2008.

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under operating leases in respect of rented office premises that fall due as follows:

	2008	2007
	RMB	RMB
Within one year	**2,038,258**	2,751,000
In the second to fifth year inclusive	**1,464,100**	1,632,000
	3,502,358	4,383,000

Leases are negotiated for a term which ranged from one to three years (2007: two to five years) and rentals are fixed at inception of the leases.

33. RETIREMENT BENEFITS SCHEME

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year ended 31 December 2008, the total amount contributed by the Group to the scheme and charged to the consolidated income statement was RMB74,570 (2007: nil) and no contributions were forfeited.

The Group's subsidiaries in the PRC participate in the retirement benefits scheme established by the government for the qualifying employees in the PRC. The assets of the scheme are held separately from the assets of the Group. Under the scheme, contributions made by the Group are calculated on the basis of 19% to 20% of the enrolled employees' salaries. Apart from the above, the Group has no further obligations under the retirement benefits scheme. The amount of such contributions charged to the consolidated income statement was RMB661,966 (2007: RMB2,379,693).

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34. ACQUISITION OF SUBSIDIARIES

During the year of 2008, the Group acquired 100% of the issued share capital of certain property and asset holding companies for an aggregate consideration of HK$17,650,000 (equivalent to RMB15,611,425) from independent third parties. The acquisitions have been accounted for using the purchase method. The amount of discount on acquisition recorded as a result of acquisition was set out below:

	Acquiree's carrying amounts before combination	Fair value adjustments	Fair values
	RMB	RMB	RMB
Net assets acquired:			
Property, plant and equipment	737,989	–	737,989
Investment properties	10,181,120	5,385,211	15,566,331
Prepayments, deposits and other receivables	746,513	–	746,513
Bank balances and cash	100,928	–	100,928
Advances from customers, accrued charges and other payables	(418,869)	–	(418,869)
Deferred tax liabilities	–	(888,560)	(888,560)
	11,347,681	4,496,651	15,844,332
Discount on acquisition of subsidiaries			(232,907)
			15,611,425
Total consideration satisfied by:			
Cash consideration			15,611,425
Net cash outflow arising on acquisition of subsidiaries:			
Cash consideration			15,611,425
Bank balances and cash acquired			(100,928)
Net outflow of cash and cash equivalents in respect of the acquisition			15,510,497

The acquired subsidiaries contributed approximately RMB9,200,000 to the Group's loss for the period between the date of acquisition and the balance sheet date.

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For the Year Ended 31 December 2008

34. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

If the acquisition had been completed on 1 January 2008, total group revenue for the period would have been increased by approximately RMB32,000, and loss for the period would have been increased by approximately RMB616,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

35. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2008, the Group disposed of the Disposal Group for a consideration of HK$110,000,000 (approximately RMB102,300,000).

The details of the disposal are set out in the circular issued by the Company dated 21 December 2007.

	RMB
Net assets disposed of:	
Property, plant and equipment	15,935,683
Intangible assets	1,901,242
Interest in an associate	6,190,199
Inventories	207,974
Amounts due from customers for integration solutions	14,137,112
Trade receivables	22,922,322
Prepayments, deposits and other receivables	8,283,445
Bank deposits	45,537,662
Bank balances and cash	20,400,027
Trade payables	(6,070,375)
Note Payables	(4,511,934)
Advances from customers, accrued charges and other payables	(6,864,262)
Tax liabilities	(417,370)
	117,651,725
Loss on disposal	(15,351,725)
Total consideration	102,300,000
Total consideration satisfied by:	
Cash consideration	102,300,000
Net cash inflow from the Disposal	
Cash consideration	102,300,000
Bank balances and cash disposed of	(20,400,027)
Net inflow of cash and cash equivalents in respect of the Disposal	81,899,973

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35. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

The Disposal Group contributed cash outflow of approximately RMB3,100,000 in respect of operating activities for the year ended 31 December 2008. No cash flow movement in respect of investing and financing activity was contributed by the Disposal Group for the year ended 31 December 2008.

36. INVESTMENTS IN PRINCIPAL SUBSIDIARIES

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

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Effective percentage of equity interests/voting rights held by the Company		Principal activities
			Directly %	Indirectly %	
Smart Century Investment Limited	BVI	USD1,000	100	–	Investment holding
Watson China Limited	Hong Kong	HK$1	–	100	Investment property holding
Best Earning Development Limited	Hong Kong	HK$1	–	100	Investment property holding
Alpaco Company Limited	BVI	USD1	–	100	Investment property holding
ZZNode (Shanghai) 上海直真節點科技開發有限公司	The PRC	RMB5,000,000	–	100	Provision of telecommunication OSS products and solutions

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

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37. POST BALANCE SHEET EVENT

Pursuant to the announcements dated 30 January 2009 and 26 March 2009 made by the Company, the potential acquisition of investments as more fully explained in note 20 are still under negotiation and discussion and accordingly, as of the date on which the consolidated financial statements are being approved by the directors, the consideration and payment mechanism in respect of the transaction are still not yet finalised and the proposed transaction is still not yet completed.

Should the transaction be completed in future, there might be a change in the beneficial shareholders of the Company.

38. BALANCE SHEET OF THE COMPANY

	NOTES	**2008 RMB**	2007 RMB
Non-current asset			
Investment in subsidiaries		**13,764**	74,569,800
Amounts due from subsidiaries	(a)	**–**	–
		13,764	74,569,800
Current assets			
Prepayments, deposits and other receivables		**56,784**	163,035
Dividend receivables		**–**	9,645,120
Financial assets at fair value through profit or loss		**7,986,593**	–
Bank balances and cash		**157,741**	5,730
		8,201,118	9,813,885
Current liabilities			
Advances from customers, accrued charges and other payables		**869,166**	1,873
Amounts due to subsidiaries	(a)	**10,822,938**	5,818,886
		11,692,104	5,820,759
Net current (liabilities) assets		**(3,490,986)**	3,993,126
		(3,477,222)	78,562,926
Capital and reserves			
Share capital		**42,815,665**	41,897,665
Reserves	(b)	**(46,292,887)**	36,665,261
		(3,477,222)	78,562,926

Notes to the Consolidated Financial Statements

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38. BALANCE SHEET OF THE COMPANY *(CONTINUED)*

Notes:

(a) Amounts due from (to) subsidiaries

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

(b) Reserves

	Share premium RMB	Special reserve RMB	Translation reserve RMB	Capital redemption reserve RMB	Share option reserve RMB	Contribution from shareholders RMB	Retained earnings RMB	Total RMB
At 1 January 2007	–	74,463,808	–	502,335	1,818,368	1,948,695	(8,995,680)	69,737,526
Loss for the year and total recognised expense for the year	–	–	–	–	–	–	(35,280,759)	(35,280,759)
Recognition of equity-settled share-based payments	–	–	–	–	2,229,991	(21,497)	–	2,208,494
At 31 December 2007 and 1 January 2008	–	74,463,808	–	502,335	4,048,359	1,927,198	(44,276,439)	36,665,261
Exchange difference arising on translation	–	–	(14,401,600)	–	–	–	–	(14,401,600)
Loss for the year	–	–	–	–	–	–	(72,044,948)	(72,044,948)
Total recognised expense for the year	–	–	(14,401,600)	–	–	–	(72,044,948)	(86,446,548)
Issue of shares upon exercise of share options	5,288,400	–	–	–	(1,800,000)	–	–	3,488,400
At 31 December 2008	5,288,400	74,463,808	(14,401,600)	502,335	2,248,359	1,927,198	(116,321,387)	(46,292,887)

The details of certain reserve are disclosed in the consolidated statement of changes in equity.

39. COMPARATIVE FIGURES

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

Summary of Investment Properties

Address	Lot number	Tenure	Existing use
Flat C, 29/F, Tower 3, Sky Tower, No. 38 Sung Wong Toi Road, Kowloon, Hong Kong.	46/147335th parts or shares of and in the Remaining Portion of Kowloon Inland Lot No. 4013.	Medium-term lease	Residential
Space No. R206 on 2/F, Sky Tower, No. 38 Sung Wong Toi Road, Kowloon, Hong Kong.	13/147335th parts or shares of and in the Remaining Portion of Kowloon Inland Lot No. 4013.	Medium-term lease	Residential car parking
Flat B, 11/F, Intelligent Court, Nos. 36,38 & 40A, Tung Lo Wan Road, Hong Kong.	246/12986th parts or shares of and in the Remaining Portions of Inland Lots Nos. 1903 and 2056 and Section A of Inland Lot No. 2055.	Medium-term lease	Residential
Flat A, 7/F, Springfield Court, Nos. 50-56, Flower Market Road, Kowloon, Hong Kong.	62/2300th parts or shares of and in i) the Remaining Portion of Section A of Sub-Section 6 of Section A of Kowloon Inland Lot No. 2372, ii) the Remaining Portion of Section B of Sub-Section 6 of Section A of Kowloon Inland Lot No. 2372. iii) the Remaining Portion of Sub-Section 6 of Section A of Kowloon Inland Lot No. 2372. iv) the Remaining Portion of Section C of Sub-Section 6 of Section A of Kowloon Inland Lot No. 2372.	Medium-term lease	Residential