

The directors have pleasure in submitting their first year report together with the audited accounts of ZZNode Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

## 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 14 to the accounts. The Group is principally engaged in the development and provision of telecommunication operational support system ("OSS") products and solutions in the PRC.

An analysis of the Group's performance for the year by business segments is set out in note 4 to the accounts.

## GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 5 January 2004 as an exempted company with limited liability under the Companies Law. Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 27 October 2004, which was to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board ("Main Board") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies comprising the Group. The shares of the Company were listed on the Main Board of the Stock Exchange on 18 November 2004 (the "Listing Date") (collectively the "Listing").

Details of the Group Reorganisation are set out in the Prospectus dated 8 November 2004 (the "Prospectus") issued by the Company.

The Reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 26.

The directors recommended the payment of a final dividend of HK1.7 cents per ordinary share for the year ended 31 December 2004.

## CLOSURE OF REGISTER

The register of members of the Company will be closed from 9 May 2005 to 17 May 2005 (both days inclusive), and during which no transfer of shares will be effected. In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming Annual General Meeting and to qualify the entitlement of the final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share register and transfer office in Hong Kong, Tricor Investor Services Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 pm on 6 May 2005.



## FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the accounts.

## DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution of dividend is proposed to be made, the Company shall be able to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2004, distributable reserves of the Company amounted to RMB75,099,811.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights 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.

## DIRECTORS

The directors during the period and up to the date of this report are:

### EXECUTIVE DIRECTORS

Ms. WANG Feixue (Chairman)	Appointed on 5 January 2004
Mr. JIN Jianlin	Appointed on 5 January 2004
Ms. HU Rong	Appointed on 5 January 2004
Mr. MA Ke	Appointed on 5 January 2004 and resigned on 22 March 2004
Mr. YUAN Juan	Appointed on 22 March 2004

### NON-EXECUTIVE DIRECTOR

Mr. ZHANG Suyang	Appointed on 5 January 2004
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### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HUNG Randy King Kuen	Appointed on 31 October 2004
Mr. CHEN Xiaohong	Appointed on 31 October 2004
Mr. HE Xingui	Appointed on 31 October 2004

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

In accordance with Article 86 para (3) of the Company's Articles of Association, all directors retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and which will continue thereafter until terminated by a three months' notice in writing served by either party on the other.

Directors' fees paid to the independent non-executive Directors during the year totalled approximately RMB37,000. Apart from this, the independent non-executive Directors received no other emoluments from the Company or any of its subsidiaries.

## 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

On 31 October 2004, a share option scheme (the "Share Option Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Share Option Scheme is to provide incentives or rewards for the eligible person of the Group and to enable the Group to recruit and/or to retain high-caliber employees and attract human resources that are valuable to the Group. The Board from time to time or a duly authorised committee thereof delegated with the powers of the Directors to administer the Share Option Scheme may, at its discretion, grant options to any employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including the executive Directors, non-executive Director and independent non-executive Directors of the Company and/or any of its subsidiaries), consultants, agents or legal and financial advisers to the Company or its subsidiaries whom the Board considers, in its sole discretion, as having contributed to the Company or any of its subsidiaries. As at the date of this report, no options have been granted by the Company pursuant to the Share Option Scheme.



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

As at 31 December 2004, the interests or short positions of the Directors and the chief executive of the Company 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 as set out in Appendix 10 of the Listing Rules were as follows:

### LONG POSITIONS IN SHARES

Name of directors	No. of underlying shares	The Company or name of Associated Corporation to which the Shares relate	Nature of interests	Approximate percentage of interest
Ms. WANG Feixue	162,426,000	Company	Corporate (Note 1)	40.61%
Mr. JIN Jianlin	18,000,000	Company	Corporate (Note 2)	4.50%
	13,732,400	Company	Short position (Note 3)	3.43%
Ms. HU Rong	33,711,000	Company	Corporate (Note 4)	8.43%

Notes:

- Ms. WANG Feixue, an executive Director of the Company is interested in approximately 33.11% of the interests in Bright Pearl Holdings Limited ("Bright Pearl") and she is also the sole director of Bright Pearl. Therefore, Ms. WANG Feixue is deemed or taken to be interested in the shares of the Company which are owned by Bright Pearl.
- Mr. JIN Jianlin, an executive Director of the Company, owns the entire equity interests in Silver Well Investment Limited ("Silver Well"). Therefore, Mr. JIN Jianlin is deemed or taken to be interested in the shares of the Company which are owned by Silver Well which are held by Silver Well as a trustee on trust for certain employees, officers, consultants, agents and advisers of the Group selected as eligible to participate in a share incentive scheme for the Group ("Share Incentive Scheme"). Details of the Share Incentive Scheme have been disclosed in the Prospectus.
- As at 31 December 2004, 13,732,400 options have been granted by Silver Well to eligible participants under the Share Incentive Scheme, and upon the exercise of such options in full, 13,732,400 Shares will be transferred to such eligible participants.
- Ms. HU Rong, an executive Director of the Company, owns the entire equity interests in New Wingo Investments Limited ("New Wingo"). Therefore, Ms. HU Rong is deemed or taken to be interested in the Shares of the Company which are owned by New Wingo.

Save as disclosed above, no other Director or chief executive of the Company has interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (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.

## SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2004, the following persons (other than Directors or chief executive 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 POSITION IN SHARES

Name of shareholder	Nature of interests	No. of shares	Approximate percentage of interests (%)
Bright Pearl	Corporate (Note a)	162,426,000	40.61
New Wingo	Corporate (Note b)	33,711,000	8.43
IDG Technology Venture Investments, LP ("IDGVC")	Corporate (Note c)	30,000,000	7.50
IDG Technology Venture Investments, LLC	Corporate (Note c)	30,000,000	7.50
Happy Choice Management Limited ("Happy Choice")	Corporate (Note d)	28,863,000	7.21
Mr. YING Zhaohui	Corporate (Note d)	28,863,000	7.21
Grand Advance Investments Limited ("Grand Advance")	Corporate (Note e)	27,000,000	6.75
Mr. YANG Fei	Corporate (Note e)	27,000,000	6.75
Mr. WANG Shu	Corporate (Note e)	27,000,000	6.75

Note:

- (a) Bright Pearl is an investment holding company with limited liability incorporated on 8 August 2004 in BVI, which is owned as to approximately 33.11%, 30.69%, 18.66%, 8.51%, 2.37%, 2.22%, 1.48%, 1.48% and 1.48% by each of 王飛雪女士 (Ms. WANG Feixue), 金建林先生 (Mr. JIN Jianlin), 董如萍女士 (Ms. DONG Ruping), 袁雋先生 (Mr. YUAN Juan), 劉澎先生 (Mr. LIU Peng), 王德傑先生 (Mr. WANG Dejie), 王銳先生 (Mr. WANG Rui), 栗衛東先生 (Mr. LI Weidong) and 劉偉先生 (Mr. LIU Wei) respectively. 王飛雪女士 (Ms. WANG Feixue), 金建林先生 (Mr. JIN Jianlin) and 袁雋先生 (Mr. YUAN Juan) are the executive Directors of the Company.
- (b) New Wingo is an investment holding company with limited liability incorporated on 18 August 2003 in BVI, which is wholly owned by 胡榮女士 (Ms. HU Rong) and will be deemed to be interested in 33,711,000 shares of the Company. 胡榮女士 (Mr. HU Rong) is an executive Director of the Company and the financial controller of the Group's PRC subsidiaries and branch offices.
- (c) IDGVC is a Delaware limited partnership, which is controlled by IDG Technology Venture Investments, LLC, its general partner.



- (d) Happy Choice is an investment holding company with limited liability incorporated on 9 July 2003 in BVI, which is wholly owned by 應朝暉先生 (Mr. YING Zhaohui) who has been a director of Beijing Zhizhen Node Technology Development Co., Ltd, a subsidiary of the Group, since 15 December 2000.
- (e) Grand Advance is an investment holding company with limited liability incorporated on 22 July 2003 in BVI, which is owned as to 50% by 楊飛先生 (Mr. YANG Fei) and 50% by 王樹先生 (Mr. WANG Shu), both of whom are Independent Third Parties, save for their respective shareholding interest in Grand Advance. As both 楊飛先生 (Mr. YANG Fei) and 王樹先生 (Mr. WANG Shu) hold more than one-third of the share capital of Grand Advance, they are deemed or taken to be interested in the shares in the Company which are owned by Grand Advance.

Save as disclosed above, as at 31 December 2004, there was no other person who 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.

## COMPETING INTERESTS

As at 31 December 2004, 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.

## MAJOR CUSTOMERS AND SUPPLIERS

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

	<b>Percentage of purchases</b>
The largest supplier	16.7%
Five largest suppliers combined	47.0%

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

	<b>Percentage of sales</b>
The largest customer	36.9%
Five largest customers combined	89.6%

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.

## DISCLOSURE UNDER RULES 13.13 TO 13.22 OF THE LISTING RULES

As at 31 December 2004, the audited total assets of the Group was approximately RMB152,291,000 ("Audited Total Assets"). Based on the audited accounts and records of the Group as at 31 December 2004, the trade receivables from China Mobile Communications Corporation (中國移動通信集團公司), its holding companies, subsidiaries or associates (all as defined in the Listing Rules) (together the "China Mobile Group") were as follows:

<b>Customer</b>	<b>Amount due to the Group as at 31 December 2004</b>	<b>% of the Audited Total Assets of the Group as at 31 December 2004</b>
China Mobile Group	RMB17,208,237	Approximately 11.3%

China Mobile Communications Corporation is an infrastructural telecommunications service provider in the PRC and is independent of, and is not connected with, the Company or its subsidiaries, the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the Listing Rules). The shares of its subsidiary, China Mobile (Hong Kong) Limited (中國移動(香港)有限公司), are listed on the Main Board of the Stock Exchange and the New York Stock Exchange.

The above trade receivables arose as a result of the Group's sales of self-developed software, sales of third party software and hardware in relation to system integration, and provision of system integration and other services to the China Mobile Group and the amount of which has not been settled as at 31 December 2004 according to the Company's audited records. The trade receivables are unsecured, interest free and with payment terms of not more than 90 days.

Save as disclosed above, the Directors have confirmed that, as at the date of this report, they are not aware of any circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.22 of the Listing Rules.

## CONNECTED PARTY TRANSACTIONS

In respect of the related party transaction disclosed under note 27 of the accounts, it does not fall within the definition of connected transaction as defined in the Chapter 14A of the Listing Rules because none of the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Company or its subsidiaries or any of their associates (as defined in the Listing Rules) holds any interest in the related party dealing with the Group.

## BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Appendix 14 of the Listing Rules. Independent non-executive directors were not appointed for a specific term as they are subject to the provisions of retirement by rotation and re-election in accordance with the Company's Articles of Association.



## AUDIT COMMITTEE

The Company established an audit committee on 31 October 2004 with terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

The primary duties of the audit committee are to review the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. HUNG Randy King Kuen (Chairman of the audit committee), Mr. CHEN Xiaohong and Mr. HE Xingui. The annual results for the year ended 31 December 2004 have been reviewed by the audit committee. One meeting has been held by the audit committee up to the date of this report.

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

The Company's shares were listed on the Main Board on 18 November 2004. Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period from 18 November 2004 to 31 December 2004.

## PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital are held by the public at all times from 18 November 2004 up to the date of this report.

## AUDITORS

The accounts have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment as the Company's auditors. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**WANG Feixue**

*Chairman*

Beijing, the PRC, 19 April 2005