

■ MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows and the balance of proceeds from the placing and public offer of the Company in 2004.

As at 30 June 2005, the Group had cash and cash equivalents of approximately RMB63,247,800 as compared to the cash and cash equivalents of approximately RMB90,953,398 as at 31 December 2004.

Gearing Ratio

As at 30 June 2005, the Group did not have any long-term debts while its shareholders' funds amounted to approximately RMB121,755,487. In this regard, the Group holds a net cash position while nil gearing ratio (net debt to shareholders' funds) as at 30 June 2005.

Capital Structure

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Main Board") on 18 November 2004. There has been no change in the capital structure of the Company since the Company's listing on the Main Board. The capital of the Company comprises only ordinary shares. The Company and the Group have no borrowings or long-term debts.

Significant Investment

As at 30 June 2005, the Group did not have any significant investments.

Material Acquisitions and Disposals/Future Plans for Material Investments

On 30 April 2005, Beijing Zhizhen Node Technology Co., Ltd. 北京直真節點技術開發有限公司 ("ZZNode (Beijing)"), an indirect wholly owned subsidiary of the Company, entered into a joint venture contract for the formation of a joint venture company in the PRC. As at 30 June 2005, ZZNode (Beijing) has paid RMB8,100,000 from internal resources for 27% equity interests in the joint venture company. Addition fund of RMB4,400,000 will be further injected from internal resources into the joint venture company during the year of 2005 when all the parties to the joint venture contract consider appropriate. Please refer to announcement of the Company dated 17 May 2005 for further details.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in Renminbi and Hong Kong dollars. The Directors believe that the operations of the Group are not subject to significant exchange risk.

Charge on Group's Assets

As at 30 June 2005, the Group did not have any charges on its assets.

Contingent Liability

As at 30 June 2005, the Group did not have any significant contingent liabilities.

Employee Information and Remuneration Policies

As at 30 June 2005, the Group has 276 employees (as at 31 December 2004: 269) working in the PRC. The Group remunerates its employees on their performance, experience and prevailing industry practices. The Directors 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.

■ UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	NOTES	Unaudited Six months ended 30 June 2005 RMB	Audited Six months ended 30 June 2004 RMB
Turnover	2	42,024,919	47,009,942
Cost of sales		(27,267,896)	(23,920,756)
Gross profit		14,757,023	23,089,186
Other operating income	3	3,999,377	2,979,060
Research and development expenditure		(3,373,124)	(3,386,109)
Distribution costs		(2,181,509)	(2,427,849)
Administrative expenses		(7,060,840)	(4,719,190)
Profit from operations	4	6,140,927	15,535,098
Share of result of an associate		–	(59,224)
Gain on disposal of interest in an associate		–	333,494
Profit before taxation		6,140,927	15,809,368
Taxation	5	(699,127)	(349,506)
Net profit attributable to shareholders		5,441,800	15,459,862
Earning per share			
– Basic (RMB cents)	7	1.36	5.15
Dividends	6	–	–