

■ NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited consolidated interim accounts ("Condensed Interim Accounts") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This Condensed Interim Account should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this Condensed Interim Account are consistent with those used in the annual financial statements for the year ended 31 December 2004.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the development and provision of operational support system products and solutions in the People's Republic of China (the "PRC").

Turnover, which is stated net of value-added tax and other sales tax and returns, represents amounts received and receivable for sale of hardware and software and service income from provision of system integration and maintenance, training and other services.

The Group is currently organised into four revenue streams- sale of self-developed software, sale of third party software and hardware in relation to system integration, system integration and maintenance, training and other services. These revenue streams are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the six months ended 30 June 2005

	Sale of self-developed software RMB	Sale of third party software and hardware in relation to system integration business RMB	System integration RMB	Maintenance, training and other services RMB	Total RMB
TURNOVER					
External sales	<u>10,674,469</u>	<u>29,687,699</u>	<u>1,106,596</u>	<u>556,155</u>	<u>42,024,919</u>
RESULT					
Segment result	<u>7,759,728</u>	<u>4,594,140</u>	<u>723,847</u>	<u>375,670</u>	13,453,385
Unallocated other operating income					1,929,891
Unallocated corporate expenses					<u>(9,242,349)</u>
Profit before taxation					6,140,927
Taxation					<u>(699,127)</u>
Net profit attributable to shareholders					<u>5,441,800</u>

For the six months ended 30 June 2004

	Sale of self-developed software RMB	Sale of third party software and hardware in relation to system integration business RMB	System integration RMB	Maintenance, training and other services RMB	Total RMB
TURNOVER					
External sales	<u>18,144,179</u>	<u>22,450,910</u>	<u>5,088,707</u>	<u>1,326,146</u>	<u>47,009,942</u>
RESULT					
Segment result	<u>14,525,677</u>	<u>3,734,472</u>	<u>3,563,787</u>	<u>805,558</u>	22,629,494
Unallocated other operating income					65,054
Unallocated corporate expenses					<u>(7,159,450)</u>
Profit from operations					15,535,098
Share of result of an associate					(59,224)
Gain on disposal of interest in an associate					<u>333,494</u>
Profit before taxation					15,809,368
Taxation					<u>(349,506)</u>
Net profit attributable to shareholders					<u>15,459,862</u>

3. OTHER OPERATING INCOME

	Unaudited Six months ended 30 June 2005 RMB	Audited Six months ended 30 June 2004 RMB
Value-added tax refund income (<i>Note a</i>)	1,919,486	2,388,506
Dividend income	1,680,000	–
Government grants (<i>Note b</i>)	150,000	525,500
Interest income	249,891	65,054
	3,999,377	2,979,060

- a. In accordance with the Notice on Certain Issues of Tax Policies to Encourage the Development of Software and Integrated Circuits Industries (關於鼓勵軟件產業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 sale of internally-developed and produced software products, an amount of 14% value-added tax on such income with effect from 24 June 2000 to 31 December 2010. On 24 January 2000, the Beijing Municipal Science and Technology Commission issued the Software Enterprise Verification Certificate (軟件企業認定證書) to Beijing Zhizhen Node Technology Development Co, Ltd. 北京直真節點技術開發有限公司 (“ZZNode (Beijing)”) and on 20 February 2002, the Shanghai Information Office issued the Software Enterprise Verification Certificate (軟件企業認定證書) to Shanghai Zhizhen Node Technology Development Co., Ltd. 上海直真節點技術開發有限公司 (“ZZNode (Shanghai)”). Both ZZNode (Beijing) and ZZNode (Shanghai) were therefore entitled to receive 14% tax refund from sale of internally-developed software products after the Software Products Taxation Review and tax refund notice (稅收收入退款書) were approved. This tax refund was recognized as income in the period upon the relevant conditions were fulfilled.
- b. The Group is principally engaged in software technology development industry and it is entitled to receive government grants after the Group has obtained approvals from 中國科學技術部科技型中小企業技術創新基金管理中心 (The Small and Middle-Sized Enterprise Technology Innovation Fund Management Center under the Ministry of Technology and Science of the PRC) and 昌平縣區財政所 (The Bureau of Finance of the Changping District People’s Government) for encouraging software Technology development in the PRC.

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging or crediting:

	Unaudited Six months ended 30 June 2005 RMB	Audited Six months ended 30 June 2004 RMB
Staff costs, including directors' emoluments	9,399,056	7,994,440
Auditors' remuneration	371,000	50,000
Allowance for bad and doubtful debts	809,011	–
Depreciation of property, plant and equipment	709,879	1,040,615
Operating lease rentals in respect of rented premises	1,839,713	1,517,850
Research and development expenditure	7,613,749	3,851,087
Add: Amortization of intangible assets	379,815	338,263
Less: amount capitalised	(4,620,440)	(803,241)
	<u>3,373,124</u>	<u>3,386,109</u>

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the consolidated profit and loss account for the periods ended 30 June 2004 and 2005 as the Group's income neither arises in, nor is derived from Hong Kong.

ZZNode (Beijing) and ZZNode (Shanghai) are recognised as advanced technology enterprises and software enterprise respectively according to the Changping District Tax Notices [1999] No. 176 and [2003] No. 310 of 北京市新技術產業開發試驗暫行條例 (Provisional Regulation on Test Plot of New Technical Industry and Development in Beijing Municipality) approved by Local Tax Bureau of Changping District of Beijing Municipality and the Shanghai State Tax Notice 滬國稅浦政 [2002] No. 70 of 《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》 (Circular of the Ministry of Finance, the State Administration of Taxation and General Administration Custom on the Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries) approved by State Tax Bureau and Local Tax Bureau of Pudong New District of Shanghai Municipality, respectively. ZZNode (Beijing) is exempted from the PRC Enterprise Income Tax for the three years ended 31 December 2002 and is entitled to 50% tax reduction for the three years ending 31 December 2005. ZZNode (Shanghai) is exempted from the PRC Enterprise Income Tax for the two years ended 31 December 2003 and is entitled to a 50% tax reduction for the three years ending 31 December 2006.

For the periods ended 30 June 2004 and 2005, the tax change represents the current tax expense for the period.

For the periods ended 30 June 2004 and 2005, ZZNode (Beijing) and ZZNode (Shanghai) enjoyed a reduced income tax rate of 7.5% in accordance with the relevant rules promulgated by the Beijing municipal government and Shanghai municipal government respectively.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

6. DIVIDENDS

	Unaudited	Audited
	Six months ended	Six months ended
	30 June	30 June
	2005	2004
	RMB	RMB
Dividends paid	<u>7,208,000</u>	<u>–</u>

At the board meeting held on 19 April 2005, the directors proposed a final dividend of HK1.7 cents (approximately RMB1.8 cents) per share for the year ended 31 December 2004. The proposed final dividend was approved by the shareholders at the annual general meeting on 17 May 2005 and was fully paid during the period.

The Board does not recommend payment of an interim dividend for the period ended 30 June 2005 (period ended 30 June 2004: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders of RMB5,441,800 (2004: RMB15,459,862) and on the weighted average number of ordinary shares of 400,000,000 (2004: 300,000,000 shares) in issue and issuable on the assumption that the capitalisation issue of 300,000,000 shares of the Company had been effective on 1 January 2004.

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding during the period ended 30 June 2004 and 2005.

8. CAPITAL EXPENDITURE

	Property, plant and equipment	Intangible assets
	RMB	RMB
Opening net book amount as at 1 January 2005	4,454,039	3,418,712
Development costs recognized as an asset	–	4,620,440
Other additions	12,795,922	–
Depreciation/amortisation charge	(709,879)	(379,815)
	<u>16,540,082</u>	<u>7,659,337</u>
Closing net book amount as at 30 June 2005		
Opening net book amount as at 1 January 2004	5,152,673	1,582,258
Development costs recognized as an asset	–	803,241
Other additions	314,735	–
Depreciation/amortisation charge	(1,040,615)	(338,263)
	<u>4,426,793</u>	<u>2,047,236</u>
Closing net book amount as at 30 June 2004		
Development costs recognized as an asset	–	1,751,291
Other additions	1,037,562	–
Disposal	(126,419)	–
Depreciation/amortisation charge	(883,897)	(379,815)
	<u>4,454,039</u>	<u>3,418,712</u>
Closing net book amount as at 31 December 2004		

9. TRADE RECEIVABLES AND NOTES RECEIVABLE

The Group allows an average credit period of 90 days to its customers. The following is an ageing analysis of trade receivables:

	Unaudited	Audited
	30 June	31 December
	2005	2004
	RMB	RMB
0-90 days	24,601,739	18,616,706
91-180 days	7,635,728	912,985
181-270 days	1,947,005	13,797,440
271-360 days	58,511	1,273,917
1-2 years	10,427,002	2,841,535
	<u>44,669,985</u>	<u>37,442,583</u>

All notes receivable are due within 180 days.

10. AMOUNT DUE FROM A RELATED PARTY

	Unaudited	Audited
	30 June	31 December
	2005	2004
	RMB	RMB
Beijing Peng Cheng Xun Dong Technology Co., Ltd.	<u>1,114,000</u>	<u>3,559,739</u>

The amount due from a related party was unsecured, non-interest bearing and repayable on demand.