

Chairman's Statement

FINANCIAL REVIEW

I hereby present the annual report for the year ended 31 December 2005 of ZZNode Holdings Company Limited ("ZZNode" or the "Group") on behalf of the Board of Directors.

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB97,315,000 (2004: RMB108,226,000), representing a decrease of 10.1% from the last financial year. The overall gross profit margin decreased from 46.1% of the last financial year to approximately 37.0% of this year. Profit attributable to shareholders amounted to approximately RMB9,256,000 (2004: RMB28,280,000), which dropped by 67.3% from the last financial year. Basic earnings per share was approximately RMB2.31cents (2004: RMB9.06 cents).

The Board of Directors did not recommend to pay any dividend for the year ended 31 December 2005 (2004: HK\$1.7 cents per share).

BUSINESS REVIEW

The Group strives to provide top operational supports system ("OSS") operational supports system ("OSS") software products and one-stop integrated services to the telecommunications service providers since its establishment. Our major customers, including four major telecommunications service providers like China Mobile Group, covered 31 provinces in the People's Republic of China (the "PRC").

2005 marked an eventful year for the Group. Under an increasingly competitive telecommunication sector in the PRC, a series of adaptive measures were put into place by the telecommunication operators in order to reduce costs, increase efficiencies and be well equipped and prepared against challenges associated with the launch of 3G in the future. To capture the business opportunity arising from the launch of 3G, since 2002, the Group has been making concerted efforts in the research and development ("R&D") and competent professional training in connection with 3G OSS related products, reflecting that the Group was one of the few domestic OSS product and solution providers which are well equipped with the sufficient capabilities for the R&D of 3G OSS products.

Our R&D technologies and management were again recognized with nationwide standard. In addition to our prior reputation as 二零零四年國家規劃布局內的重點軟件企業 (Focused Software Enterprise under the State Plan in 2004), the Group became the first software enterprise winning the reputation as 外商投資先進技術企業 (Technologically Advanced Foreign Investment Enterprise) from Beijing Commercial Bureau, thereby enjoying a number of concessions including a 50% reduction in income tax for a further three years upon expiry of holiday of reduction in or exemption of enterprise income tax as stipulated by the State. The effective tax rate after the 50% reduction is 10%. In addition, the Group was accredited as 創新型企業 (Innovative Enterprise) by Changping Sector of Zhongguancun Science Park by differentiating itself from thousands of counterparties. Such award was a symbolic reflection of high recognition and praises of the Group's technologically innovative capacities and promising development prospects by Changping Sector of Zhongguancun Science Park.

During the year under review, with a management goal focused on four spectrums of “professionalized R&D”, “widened product series”, “standardized projects” and “optimized management”, the fruitful results arising from the passing of Capability Maturity Model Integration (“CMMI”) Level 3 assessment in 2004 were further deepened. With a formal initiation of an internal upgrading project for CMMI Level 4, we plan to pass CMMI Level 4 assessment in late 2006, the Group is set to emerge as one of the few technologically mature enterprises in terms of high grade software development process.

2005 embarked a year of impressive exploration of our sales channels. Not only further expanding into those “base” markets in the mobile market, but that our force in developing, and thus our market share in, the fixed network market had also increased. As to network management of the mobile information network, Phase 2 expansion contracts were entered into with 8 provinces by the Group. Our market share was extended to 10 provinces or a total one-third market share of China Mobile with the addition of two new customers in this market. On the side of the fixed line market, our customer coverage was extended beyond the two headquarters of enterprise groups and six provinces of these enterprise groups. We took an active step in forming strategic alliances with potential cooperative partners in order to explore new business growth opportunities.

PROSPECTS

Given a complete removal of the stumbling effects of different system modes on the domestic launch of 3G following the designation of the domestic-made TD-SCDMA as a formal standard in the telecommunication industry by the Ministry of Information Industry, the release of 3G licenses by the PRC government will be anytime in the future. 3G business represented a momentous business direction for which we devoted endeavoured efforts and substantial resources in recent years. As an enterprise determined to provide advanced OSS products and solutions in the industry, the Group was widely recognized amongst telecommunication operators despite of keen competition. We expects that the domestic telecommunication industry will report a sustainable growth in 2006, while the launch of 3G will represent a valuable opportunity for OSS enterprises. The Group is set to deliver a remarkable profit growth and access to a larger pool of cooperative opportunities in this horizon as well as widened applications of new integrated network management products and total solutions in this spectrum.

The Group is well prepared for three main areas of 3G integrated business management platform (ISMP), 3G network management products (E2EVIEW@3G), network elements management products (ISMC for 3G), which are expected to be commissioned in the second half of 2006. In addition, to fully capitalize on the platform capability of the horizontal system structure adopted by ISMP, such structure will be firstly applied to the existing mobile value-added business in order to boost our sales volume and flourish a firm foothold for successful applications of such products during 3G era.

During the year under review, the Group had also involved in the transmission network solution system project of China Mobile. As a key participant, the 3-layer system of next generation's OSS advocated by the Group had been approved by China Mobile and written into the specification. Tender submission process of the project has ended, and we are confident that the Group can gain a substantial market share in the transmission network management solution business from China Mobile and other carriers in 2006.

In the second half of 2005, a joint venture company had been formed by the Group together with Shanghai Telecommunication Industry (Group) Company Limited (a company within China Telecom Group), Shanghai Fuxin Communication Technology Development Company Limited and Alcatel Shanghai Bell Co., Ltd. The joint venture company principally engages in the design, manufacture and sales of telecommunication connection terminal products. Establishment of the joint venture will be beneficial to the development and growth of the principal business of the Group. Although the joint venture remained in its initial stage in 2005, we believe that with further development of China Telecom in broadband connection market, it will contribute positively to the Group in 2006.

In addition, to foster enhanced competitive edge and industry position of the Group, we will endeavour to further enhance our competitive strengths and wider product sales coverage by seeking stronger collaboration with our strategic partners. As for 3G/NGN integrated network management products, the Group positions itself as a leading player in the industry by taking full advantage of our leading product and technological advancements over other players in the domestic market. And we will also actively seek for opportunities to cooperate with foreign telecommunications operators. The Group is confident to attain greater breakthrough in the overseas markets in future given our experiences in cooperation with international corporations.

Looking towards future, the Group will forge towards our goal of becoming a domestically leading OSS products and solutions provider, being well recognised in the international market, at a full gear and to increase our market share. We will make committed efforts in providing advanced software products and solutions for the industry, offering the best services for customers and creating the greatest shareholders' values.



Chairman's Statement

APPRECIATION

I would like to express sincere thanks to all our management and staff for their commitments and contributions on behalf of the Board of Directors. I would also like to take this opportunity to thank our shareholders, investors and customers for their heartfelt encouragements and supports.

By Order of the Board

Wang Feixue

Chairman

Beijing, the PRC, 18 April 2006