For the year end 31 December 2005

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 January 2004. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 November 2004. The addresses of the registered office and principal place of business of the Company in Hong Kong are disclosed in the "Corporate Information" section to the annual report

The financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGE IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

For the year end 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGE IN ACCOUNTING POLICIES *(Continued)*

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 2A for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

For the year end 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGE IN ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition.

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGE IN ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

2A. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described above on the results for the current and prior years is as follows:

	2005	2004
	RMB	RMB
Recognition of share-based payments as expenses and decrease in profit for the year	**(1,268,354)**	(243,808)

For the year end 31 December 2005

2A. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

Analysis of decrease in profit for the year by line items presented according to their function.

	2005	2004
	RMB	RMB
Increase in cost of sales	**(313,923)**	(60,574)
Increase in research and development expenditure	**(321,524)**	(61,108)
Increase in distribution costs	**(140,945)**	(27,197)
Increase in administrative expenses	**(491,962)**	(94,929)
Decrease in profit for the year	**(1,268,354)**	(243,808)

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	**Adjustment**	**As at 31 December 2004 (restated)**	**Prospective Adjustment**	**As at 1 January 2005 (restated)**
	RMB	RMB	RMB	RMB	RMB
Balance sheet items					
Available-for-sale investment	–	–	–	5,600,000	5,600,000
Other investment	–	–	5,600,000	(5,600,000)	–
	–	–	5,600,000	–	5,600,000
Retained earnings	54,785,085	(243,808)	54,541,277	–	54,541,277
Contribution from shareholders – recognition of equity-settled share-based payments	–	243,808	243,808	–	243,808
Total effects on equity	54,785,085	–	54,785,085	–	54,785,085

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

2A. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

For the year end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity 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.

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.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition

Income from sales of third party software and hardware is recognised when goods are delivered or accepted by the customers, whenever is later. Income from sales of self-developed software and provision of system integration services are recognised based on the percentage of completion method. Revenue is measured at the fair value of the consideration received or receivable.

Maintenance and training income is recognised when services are provided.

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.

For the year end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

Value-added tax refund income is recognised upon the relevant conditions were fulfilled.

Property, plant and equipment

Property, plant and equipment 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, at the following rates per annum:

Leasehold land and buildings	4.75%
Leasehold improvements	Shorter of the term of the lease or 20 years
Furniture and fixtures	19%
Computers and equipment	19%
Motor vehicles	12%

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 income statement in the year in which the item is derecognised.

Operating leases

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.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 exchanges 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 translation 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 except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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 Company (i.e. Renminbi) 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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. 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.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as 'other income'.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to the state-managed retirement benefits schemes are charged as expenses as they fall due.

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 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 end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 with a maximum of two years, and carried at cost less any subsequent accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Impairment

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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Inventories

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

For the year end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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 equity.

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 or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earning.

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 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's financial assets are classified into loans and receivables and available-for-sale financial assets. 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables (including trade receivables, note receivables, other receivables, amount due from a related party, bank deposits and bank balances and cash) 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 are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets *(Continued)*

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

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 as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables and note 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.

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption 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.

Useful lives and impairment assessment of property, plant, and equipment

Property, plant and equipment are stated on the balance sheet at cost less accumulated depreciation and identified impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

Allowance of trade receivables, note receivables and amount due from a related party

Trade receivables, note receivables and amount due from a related party presented in the balance sheet are net of allowance for bad and doubtful receivables as estimated by the Company's management based on prior experience and the current economic environment. Change in this estimation may have a material impact on the results.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables and bank balances of the Company are denominated in foreign currencies. The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

For the year end 31 December 2005

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt 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 Company's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

6. REVENUE

Revenue represents the net amounts received and receivable for sales of hardware and software and service income from provision of system integration and maintenance, training and other services. An analysis of the Group's revenue for the year is as follows:

	2005	2004
	RMB	RMB
Sales of self-developed software	**33,054,203**	38,634,766
Sales of third party software and hardware in relation to system integration business	**60,427,720**	55,542,709
System integration	**1,327,009**	7,247,375
Maintenance, training and other services	**2,505,586**	6,801,226
	97,314,518	108,226,076

7. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segments

For management purposes, the Group is currently organised into four revenue streams – sales of self-developed software, sales 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 year ended 31 December 2005

	Sales of self-developed software RMB	Sales of third party software and hardware in relation to system integration RMB	System integration RMB	Maintenance, training and other services RMB	Consolidated RMB
REVENUE					
External sales	33,054,203	60,427,720	1,327,009	2,505,586	97,314,518
RESULT					
Segment result	13,304,161	11,991,643	162,721	1,963,269	27,421,794
Unallocated corporate expenses					(19,813,847)
Unallocated other income					2,937,639
Share of result of an associate					(562,325)
Profit before tax					9,983,261
Income tax expense					(727,739)
Profit for the year					9,255,522

7. BUSINESS AND GEOGRAPHICAL SEGMENT *(Continued)*

Business segments *(Continued)*

As at 31 December 2005

BALANCE SHEET

	Sales of self-developed software RMB	Sales of third party software and hardware in relation to system integration RMB	System integration RMB	Maintenance, training and other services RMB	Consolidated RMB
ASSETS					
Segment assets	36,073,095	14,419,078	861,324	120,512	51,474,009
Unallocated corporate assets					97,277,120
Interest in an associate					7,537,675
Non-current bank deposit					2,438,280
Consolidated total assets					158,727,084
LIABILITIES					
Segment liabilities	964,241	19,347,795	22,802	178,558	20,513,396
Unallocated corporate liabilities					11,368,125
Consolidated total liabilities					31,881,521

OTHER INFORMATION

	Sales of self-developed software RMB	Sales of third party software and hardware in relation to system integration RMB	System integration RMB	Maintenance, training and other services RMB	Consolidated RMB
Amortisation of intangible assets	913,685	–	–	–	913,685
Allowance for inventories	–	102,191	–	–	102,191

7. BUSINESS AND GEOGRAPHICAL SEGMENT *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2004

	Sales of self-developed software RMB	Sales of third party software and hardware in relation to system integration RMB	System integration RMB	Maintenance, training and other services RMB	Consolidated RMB
REVENUE					
External sales	38,634,766	55,542,709	7,247,375	6,801,226	108,226,076
RESULT					
Segment result	27,327,762	9,944,962	4,756,059	4,585,107	46,613,890
Unallocated corporate expenses					(17,295,731)
Unallocated other income					147,878
Share of result of an associate					(59,224)
Gain on disposal of interest in an associate					333,494
Profit before tax					29,740,307
Income tax expense					(1,460,452)
Profit for the year					28,279,855

7. BUSINESS AND GEOGRAPHICAL SEGMENT *(Continued)*

Business segments *(Continued)*

As at 31 December 2004

BALANCE SHEET

	Sales of self-developed software RMB	Sales of third party software and hardware in relation to system integration RMB	System integration RMB	Maintenance, training and other services RMB	Consolidated RMB
ASSETS					
Segment assets	24,798,868	12,219,063	6,092,327	3,560,390	46,670,648
Unallocated corporate assets					105,620,279
Consolidated total assets					152,290,927
LIABILITIES					
Segment liabilities	442,432	12,761,909	437,420	74,874	13,716,635
Unallocated corporate liabilities					15,052,605
Consolidated total liabilities					28,769,240

OTHER INFORMATION

	Sales of self-developed software RMB	Sales of third party software and hardware in relation to system integration RMB	System integration RMB	Maintenance, training and other services RMB	Consolidated RMB
Amortisation of intangible assets	718,078	–	–	–	718,078
Allowance for inventories	–	162,393	–	–	162,393
Impairment loss on trade receivables	141,349	–	–	–	141,349

Geographical segment

As all the operations, assets and liabilities are situated at the People's Republic of China, no geographical segment have been prepared.

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For the year end 31 December 2005

8. OTHER INCOME

	2005	2004
	RMB	RMB
Value-added tax refund income *(note a)*	**4,036,096**	4,104,995
Government grants *(note b)*	**252,300**	892,500
Tax refund for reinvestment in ZZNode (Beijing) *(note c)*	**692,886**	–
Interest income	**564,753**	147,878
Dividend income from unlisted available-for-sale investment	**1,680,000**	–
	7,226,035	5,145,373

Notes:

(a) In accordance with the Notice on Certain Issues of Tax Policies to Encourage the Development of Software and Integrated Circuits Industries (關於鼓勵軟件生產和集成電路產業發展有關税收政策問題的通知) 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 internally-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 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 a 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) are therefore entitled to receive 14% tax refund from sales of internally-developed software products after the appropriate review by the Tax Bureau and the tax refund notice (税收收入退款書) was approved. This tax refund was recognised as income in the period upon the relevant conditions were fulfilled.

(b) In 2005 the Group received government grants of RMB252,300 from 北京市高新技術成果轉化服務中心 and 北京市財政局 in respect of its software development in the PRC. The amounts are recognised to income as the conditions attached to the grants have been fulfilled.

(c) The Company increased its investment in the registered capital of ZZNode (Beijing) to RMB27,441,194 in 2005 by transferring RMB9,812,400 from retained earnings to the registered capital. As a result, ZZNode (Beijing) was entitled to a refund which is calculated based on prevailing tax rate on amount capitalised.

For the year end 31 December 2005

9. INCOME TAX EXPENSE

	2005	2004
	RMB	RMB
The charge comprises:		
PRC current income tax	**101,550**	1,460,452
Deferred tax *(note 28)*	**626,189**	–
	727,739	1,460,452

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 ending 31 December 2008 at a tax rate of 10% according to the Changping District Tax Notice [2006] 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稅減免稅問題的批復》.

ZZNode (Shanghai) is also recognised as an advanced technology and software enterprise according to the Shanghai State Tax Notice 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 Municipality. It is exempted from the PRC Enterprise Income Tax for the two years ended 31 December 2004 and entitled to a 50% tax reduction for the three years ending 31 December 2006.

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

9. INCOME TAX EXPENSE *(Continued)*

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

	2005	2004
	RMB	RMB
Profit before tax	**9,983,261**	29,740,307
Tax at the domestic income tax rate of 15% (2004: 15%)	**1,497,489**	4,461,046
Tax effect of share of result of an associate	**84,349**	–
Tax effect of expenses not deductible for tax purpose	**409,906**	246,427
Tax effect of income not taxable for tax purpose	**(605,414)**	(621,614)
Tax effect of expenses with additional tax preferential deductions	**(1,444,573)**	(1,408,415)
Tax effect of tax losses not recognised	**842,573**	–
Tax effect of income not taxable under tax holidays	**(56,591)**	(1,216,992)
Income tax expense for the year	**727,739**	1,460,452

For the year end 31 December 2005

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2005 RMB	2004 RMB (Restated)
Directors' emoluments *(note 11)*	**2,879,352**	1,923,250
Other staff costs	**14,529,374**	16,335,988
Retirement benefits scheme contributions excluding directors' emoluments	**1,229,589**	874,331
Total staff costs	**18,638,315**	19,133,569
Auditors' remuneration	**729,400**	583,000
Share-based payment expense	**1,268,354**	243,808
(Reversal of) impairment loss on trade receivables	**(650,589)**	141,349
Depreciation of property, plant and equipment	**1,774,726**	1,924,512
Loss (gain) on disposal of property, plant and equipment	**5,000**	(223)
Operating lease rentals in respect of rented premises	**2,981,584**	3,426,605
Cost of inventories recognised as expenses	**48,333,886**	45,597,747
Exchange loss	**557,892**	–
Research and development expenditure	**17,356,649**	10,217,598
Amortisation of intangible assets (included in cost of sales)	**913,685**	718,078
Less: amount capitalised	**(4,887,612)**	(2,554,532)
	13,382,722	8,381,144
Allowance for inventories	**102,191**	162,393

For the year end 31 December 2005

11. DIRECTORS' EMOLUMENTS

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

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	RMB	RMB	RMB	RMB
Wang Feixue	–	835,777	16,364	852,141
Jin Jianlin	–	803,077	15,733	818,810
Yuan Juan	–	509,176	16,364	525,540
Hu Rong	–	362,296	16,364	378,660
Zhang Suyang	–	–	–	–
Hung Randy King Kuen	104,201	–	–	104,201
Chen Xiaohong	100,000	–	–	100,000
He Xingui	100,000	–	–	100,000
Total for 2005	304,201	2,510,326	64,825	2,879,352

11. DIRECTORS' EMOLUMENTS *(Continued)*

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

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Total emoluments**
	RMB	RMB	RMB	RMB
Wang Feixue	–	571,228	13,928	585,156
Jin Jianlin	–	585,275	14,258	599,533
Yuan Juan	–	376,160	11,960	388,120
Hu Rong	–	297,080	11,900	308,980
Zhang Suyang	4,873	–	–	4,873
Hung Randy King Kuen	12,674	–	–	12,674
Chen Xiaohong	11,957	–	–	11,957
He Xingui	11,957	–	–	11,957
Total for 2004	41,461	1,829,743	52,046	1,923,250

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2004: one) individual were as follows:

	2005	2004
	RMB	RMB
Salaries and other benefits	**240,888**	290,076
Retirement benefits scheme contributions	**7,294**	11,960
Performance-related incentive payments	**–**	17,040
	248,182	319,076

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For the year end 31 December 2005

12. EMPLOYEES' EMOLUMENTS *(Continued)*

During the year, no emolument was paid by the Group to the 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. None of the directors has waived any emoluments during the year.

13. DIVIDEND

	2005	2004
	RMB	RMB
Final dividend paid, 2004 – HK1.7 cents (approximately RMB1.8 cents)	**7,200,000**	–

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of RMB9,255,522 (2004: RMB28,279,855) and 400,000,000 ordinary shares (2004: weighted average number of ordinary shares of 312,021,858).

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding during the year ended 31 December 2004 and 2005.

The basic earnings per share for 2004 is restated as follows:

	RMB cents
Reported figure before adjustment	9.14
Adjustment arising from changes in accounting policies *(see note 2)*	(0.08)
Restated	9.06

The effect of the changes in accounting policies was to decrease the basic earnings per share in 2005 by RMB0.32 cents.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB	Leasehold improvements RMB	Furniture and fixtures RMB	Computers and equipment RMB	Motor vehicles RMB	Total RMB
COST						
At 1 January 2004	–	2,391,535	75,464	5,532,448	896,962	8,896,409
Additions	–	–	–	1,352,297	–	1,352,297
Disposals	–	–	–	(130,543)	–	(130,543)
At 31 December 2004	–	2,391,535	75,464	6,754,202	896,962	10,118,163
Additions	12,189,762	1,157,465	–	745,437	–	14,092,664
Disposals	–	–	–	(29,890)	–	(29,890)
At 31 December 2005	12,189,762	3,549,000	75,464	7,469,749	896,962	24,180,937
DEPRECIATION						
At 1 January 2004	–	1,712,622	55,916	1,903,017	72,181	3,743,736
Provided for the year	–	678,913	12,803	1,126,237	106,559	1,924,512
Disposals	–	–	–	(4,124)	–	(4,124)
At 31 December 2004	–	2,391,535	68,719	3,025,130	178,740	5,664,124
Provided for the year	341,314	115,747	1,959	1,209,147	106,559	1,774,726
Disposals	–	–	–	(23,190)	–	(23,190)
At 31 December 2005	341,314	2,507,282	70,678	4,211,087	285,299	7,415,660
CARRYING VALUES						
At 31 December 2005	11,848,448	1,041,718	4,786	3,258,662	611,663	16,765,277
At 31 December 2004	–	–	6,745	3,729,072	718,222	4,454,039

Leasehold land and buildings purchased in 2005 are held under medium lease in the PRC. The allocation between the land and building elements cannot be made reliably, the leasehold interest in land is accounted for as property, plant and equipment.

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16. INTANGIBLE ASSETS

	Software development RMB
COST	
At 1 January 2004	3,100,867
Additions	2,554,532
At 31 December 2004	5,655,399
Additions	4,887,612
At 31 December 2005	10,543,011
AMORTISATION	
At 1 January 2004	1,518,609
Charge for the year	718,078
At 31 December 2004	2,236,687
Charge for the year	913,685
At 31 December 2005	3,150,372
CARRYING VALUES	
At 31 December 2005	7,392,639
At 31 December 2004	3,418,712

Software development expenditure is internally generated and amortised using the straight-line method over their estimated useful life of two years after the intangible assets are available for use.

17. INTEREST IN AN ASSOCIATE

	2005	2004
	RMB	RMB
Cost of investment in an associate		
Unlisted	**8,100,000**	–
Share of post-acquisition loss	**(562,325)**	–
	7,537,675	–

At 31 December 2005, the Group held 27% equity interest in Shanghai Beimanyuanmai Information Technology Company Ltd. 上海貝曼元脉信息技術有限公司 which was established and operated in the PRC. The principal activities of the associate are design, production and development of telecommunications terminal equipment.

The summarised financial information in respect of the associate for 2005 is set out below:

	RMB
Total assets	**62,730,178**
Total liabilities	**(34,812,863)**
Net assets	**27,917,315**
Group's share of net assets of the associate	**7,537,675**
Revenue	**30,533,039**
Loss for the year	**(2,082,685)**
Group's share of result of the associate for the year	**(562,325)**

Notes to the Consolidated Financial Statements

For the year end 31 December 2005

18. OTHER INVESTMENT

At 31 December 2004, the Group held 7% equity interest in Capital Engineering & Research Incorporation Limited (中冶京誠工程技術有限公司) ("CERI"). Upon the application of HKAS 39 on 1 January 2005, it was reclassified to available-for-sale investment (See notes 2 and 25 for details).

19. NON-CURRENT BANK DEPOSIT

It represents a US$300,000 certificate of deposit issued by a bank which matures on 4 April 2007 and bears interest at 2.88% per annum. At each half year interval, the bank has the right to redeem the certificate at face value plus accrued interest.

20. INVENTORIES

	2005	2004
	RMB	RMB
Work-in-progress	**6,615,843**	1,232,047
Spare parts	**395,320**	385,659
	7,011,163	1,617,706
Less: Allowance	**(317,261)**	(215,070)
	6,693,902	1,402,636

21. TRADE RECEIVABLES AND NOTE RECEIVABLES

	2005	2004
	RMB	RMB
Trade receivables	**37,669,488**	39,089,353
Less: accumulated impairment loss	**(996,181)**	(1,646,770)
	36,673,307	37,442,583
Note receivables	**–**	648,000
	36,673,307	38,090,583

21. TRADE RECEIVABLES AND NOTE RECEIVABLES *(Continued)*

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

	2005	2004
	RMB	RMB
0-90 days	**23,307,543**	19,264,706
91-180 days	**198,060**	912,985
181-270 days	**4,976,937**	13,797,440
271-360 days	**1,560,907**	1,273,917
More than 1 year	**6,629,860**	2,841,535
	36,673,307	38,090,583

The fair values of the Group's trade receivables and note receivables at 31 December 2005 and 2004 were approximate to their corresponding carrying amount.

22. OTHER RECEIVABLES, ACCRUED CHARGES AND OTHER PAYABLES

The fair values of the Group's other receivables, accrued charges and other payables at 31 December 2005 and 2004 were approximate to their corresponding carrying amounts.

23. AMOUNT DUE FROM A RELATED PARTY

	2005	2004
	RMB	RMB
Beijing Peng Cheng Xun Dong Technology Co., Ltd. ("Peng Cheng Xun Dong")	**–**	3,559,739

The amount was unsecured, non-interest bearing and repayable on demand. It was fully repaid during the year.

An ex-director of ZZNode (Beijing) is also director of Peng Cheng Xun Dong. The maximum outstanding debit for the year ended 31 December 2005 amounted to RMB3,559,739.

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For the year end 31 December 2005

24. BANK DEPOSITS

The deposits carry fixed interest rates from 2.07% to 2.25% per annum. The fair values of bank deposits at 31 December 2005 and 2004 were approximate to their corresponding carrying amounts.

The savings accounts included in bank balances carry market interest rate. The fair values of bank balances at 31 December 2005 and 2004 were approximate to their corresponding carrying amounts.

25. AVAILABLE-FOR-SALE INVESTMENT CLASSIFIED AS HELD FOR SALE

Available-for-sale investment classified as held for sale at 31 December 2005 comprises:

	RMB
Unlisted equity securities, at cost	5,600,000

It represents 7% equity interest in CERI reclassified from other investment and was disposed of subsequent to the year end. Please refer to note 32 for details.

26. TRADE PAYABLES AND NOTE PAYABLES

	2005	2004
	RMB	RMB
Trade payables	**12,453,371**	11,878,287
Note payables	**6,300,054**	–
	18,753,425	11,878,287

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

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

	2005 **RMB**	2004 RMB
0-90 days	**18,299,202**	11,878,287
More than 90 days	**454,223**	–
	18,753,425	11,878,287

The fair values of the Group's trade payables and note payables at 31 December 2005 and 2004 were approximate to their corresponding carrying amount.

27. SHARE CAPITAL

		Number of shares		Share capital		Equivalent nominal value of ordinary shares	
		2005	2004	**2005**	2004	**2005**	2004
	Notes			**HK$**	HK$	**RMB**	RMB
Authorised:							
At beginning of the year/ on incorporation		**1,000,000,000**	3,800,000	**100,000,000**	380,000	**106,000,000**	402,800
Increase on 31 October 2004		**–**	996,200,000	**–**	99,620,000	**–**	105,597,200
At 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		**400,000,000**	–	**40,000,000**	–	**42,400,000**	–
Allotted	*(a)*	**–**	1	**–**	–	**–**	–
Further allotment	*(a)*	**–**	99	**–**	–	**–**	–
On reorganisation to acquire Modern Age	*(b)*	**–**	999,900	**–**	99,990	**–**	105,989
Shares issued pursuant to the public offer and placing	*(d)*	**–**	100,000,000	**–**	10,000,000	**–**	10,600,000
Shares issued pursuant to the capitalisation issue of share premium	*(e)*	**–**	299,000,000	**–**	29,900,010	**–**	31,694,011
At end of the year		**400,000,000**	400,000,000	**40,000,000**	40,000,000	**42,400,000**	42,400,000

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27. SHARE CAPITAL *(Continued)*

The Company was incorporated in the Cayman Islands on 5 January 2004 with an initial authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. In relation to the listing of the Company's shares, the following changes in the issued share capital of the Company took place during the year ended 31 December 2004:

(a) On 5 January 2004, one share of the Company was allotted and issued nil paid to Codan Trust Company (Cayman) Limited as the subscriber, which was subsequently transferred to Bright Pearl Holdings Limited ("Bright Pearl").

A further aggregate 99 shares were allotted and issued nil paid by the Company of which 26 shares to New Wingo Investment Limited ("New Wingo"), 20 shares to Grand Advance Investment Limited ("Grand Advance") and 53 shares to Bright Pearl.

The 100 nil paid shares were subsequently credited as fully paid up.

(b) On 27 October 2004, New Wingo, Grand Advance and Bright Pearl transferred their respective equity interests in Modern Age Investments Limited ("Modern Age") (which, together, constitute the entire issued share capital of Modern Age) to the Company in consideration of the Company allotting and issuing, credited as fully paid, 259,974 new shares to New Wingo, 199,980 new shares to Grand Advance and 539,946 new shares to Bright Pearl.

(c) On 31 October 2004, the authorised share capital of the Company was increased to HK$100,000,000 divided into 1,000,000,000 shares of HK$0.10 each.

(d) On 18 November 2004, 100,000,000 shares were issued to the public by way of the public offer and placing (the "Share Offer") for cash of HK$0.55 per share, raising a total amount of HK$55,000,000. The excess over the par value of the shares issued was credited to the share premium account.

(e) Immediately after the Share Offer, 299,000,000 shares of HK$0.10 each were allotted, issued at par and credited as fully paid to the shareholders of the Company in proportion to their respective shareholdings in the Company prior to the Share Offer, by the capitalisation of HK$29,900,010 (together with 100 shares issued in note (a)) from the share premium account of the Company.

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28. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised during the current year:

	Impairment loss on trade receivables RMB	**Deferred software development expenditure** RMB	**Allowance for inventories** RMB	**Total** RMB
Charge (credit) to income for the year and balance at 31 December 2005	(81,349)	739,264	(31,726)	626,189

ZZNode (Beijing) is recognised as an advanced technology enterprise and has been approved to entitle to a 50% tax reduction for the next three years ending 31 December 2008, and enjoy a reduced income tax rate of 10%. The deferred tax is calculated based on the tax rate of 10% that the liabilities are expected to capitalise.

At the balance sheet date, the Group has unused tax losses of RMB10.6 million (2004: RMB9.4 million) relating to ZZNode (Shanghai) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB0.4 million (2004: Nil) that will expire in 2006. Other losses may be carried forward indefinitely.

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29. 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 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 period 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 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 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.

At 31 December 2005, no option has been granted pursuant to the Share Option Scheme.

For the year end 31 December 2005

29. SHARE-BASED PAYMENTS *(Continued)*

(b) Share incentive scheme

The Share Incentive Scheme was established by three shareholders of the Company as a trust into which they transferred in 18,000,000 shares of the Company (the "Transferred Shares"), representing 4.5% of the enlarged issued share capital of the Company after the listing of the Company to be held on trust by the trustee of the trust pursuant to the Trust Deed dated 27 October, 2004.

The consideration given to each of the shareholders for the Transferred Shares were HK$518,136, HK$582,177 and HK$707,687, respectively, which was determined with reference to the consolidated net asset value of ZZNode (Beijing) and ZZNode (Shanghai) of approximately RMB40.4 million as at 31 December, 2003. The trustee has entered into a loan agreement with an independent third party to obtain the necessary funding for acquiring the Transferred Shares.

The trustee of the trust is Silver Well Investment Limited ("Silver Well"), a company incorporated in the British Virgin Islands. Silver Well is wholly-owned by Mr. Jin Jianlin, an executive director.

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 three shareholders of the Company believe that the trust arrangement and the Share Incentive Scheme are both in the interests of the Company and the potential investors of the Company since their operation will not dilute the Company's earnings per share or the interests of potential investors in the Company. In summary, the Share Incentive Scheme does not involve new shares to be issued by the Company.

The trust shall vest on the day occurring 80 days after the date of the Trust Deed, the date on which the Company ceases to have any Eligible Participants if the Company is wound-up, or such other date as the trustee may declare.

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.

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29. SHARE-BASED PAYMENTS *(Continued)*

(b) Share incentive scheme *(Continued)*

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

Each option is exercisable by a grantee during the option period applicable to the relevant Eligible Participant giving a written notice of exercise to acquire shares to the trustee in accordance with the terms of the Share Incentive Scheme.

The first date on which the Eligible Participants may exercise a portion of their options will be the first business day occurring immediately after 12 months from the listing date of the Company.

Each option will be exercisable pursuant to the following vesting schedule:

(i) to acquire up to 20% of the shares the subject of the option, rounded down to the nearest whole number at any time within the period of five business days on or prior to 31st March, 30th June, 30th September and 31st December of each calendar year between the first exercise date and the last exercise date;

(ii) to acquire up to 40% of the shares the subject of the option (to the extent that such proportion of shares has not already been acquired), rounded down to the nearest whole number at any time within the period of five business days on or prior to 31st March, 30th June, 30th September and 31st December of each calender year between the date which is the first anniversary after the first exercise date and the last exercise date;

(iii) to acquire up to 60% of the shares the subject of the option (to the extent that such proportion of shares has not already been acquired), rounded down to the nearest whole number at any time within the period of five business days on or prior to 31st March, 30th June, 30th September and 31st December of each calender year between the date which is the second anniversary of the first exercise date and the last exercise date;

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29. SHARE-BASED PAYMENTS *(Continued)*

(b) Share incentive scheme *(Continued)*

(iv) to acquire up to 80% of the shares the subject of the option (to the extent that such proportion of shares has not already acquired), rounded down to the nearest whole number at any time within the period of five business days on or prior to 31st March, 30th June, 30th September and 31st December of each calender year between the date which is the third anniversary of the first exercise date and the last exercise date;

(v) to acquire up to 100% of the shares the subject of the option (to the extent that such proportion of shares has not already acquired), rounded down to the nearest whole number at any time within the period of five business days on or prior to 31st March, 30th June, 30th September and 31st December of each calender year between the date which is the fourth anniversary of the first exercise date and the last exercise date.

The last exercise date is the date occurring 5 years after the first exercise date.

If an Eligible Participant that is an employee of a member of the Group ceases to be an employee of a member of the Group (otherwise than by reason of his and her employment being terminated for misconduct, any other breach of the terms of employment or in certain other circumstances) before the end of the option period then in respect of an option held by that Eligible Participant,

(i) any part of the option that became exercisable before the date on which the Eligible Participant's employment ceased shall continue to be exercisable and may be exercised (to the extent of the part of the option that has not been exercised as at the cessation date) until the earlier of (1) the date of expiry of the option period, and (2) the business day immediately prior to the quarter end date (that is 31st March, 30th June, 30th September or 31st December) of the quarter which the day falling ten business days immediately after the Grantee's last actual working day with the relevant Group member is in; and

(ii) any part of the option which had not become exercisable as at the cessation date, share lapse on the Eligible Participant's last working day with the relevant Group member, whether salary is paid in lieu of notice or not.

29. SHARE-BASED PAYMENTS *(Continued)*

(b) Share incentive scheme *(Continued)*

If an Eligible Participants dies before the end of the option period, then:

(i) any part of the option that became exercisable before the date of the Eligible Participant's death shall continue to be exercisable and may be exercised (to the extent of the part of the option that has not been exercised up to the date of death) by the Eligible Participant's personal representatives until the expiry of the option period, in accordance with the terms of the Share Incentive Scheme; and

(ii) any part of the option which had not become exercisable as at the date of death shall lapse on that date.

An option shall also lapse upon the earliest to:

(i) the expiry of the option period;

(ii) the date on which an Eligible Participant holding such option is dismissed for misconduct or other breach of the terms of his or her employment (where that Eligible Participant is an employee of a member of the Group), appears to be either unable to pay or to have no reasonable prospect of being able to pay his debts, has become insolvent or has made any arrangements or composition with creditors, or has been convicted of any criminal offence involving his or her integrity or honesty;

(iii) the date on which a voluntary winding-up of the Company commences; and

(iv) the date on which an Eligible Participant holding such option breaches the terms of the Share Incentive Scheme by attempting to transfer, sell, charge, mortgage, encumber or create any interest in favour of a third party over or in relation to such option.

At 31 December 2005, the number of options granted under the Share Incentive Scheme was 12,363,400 (2004: 13,732,400), representing 3.09 per cent (2004: 3.43 per cent) of the shares of the Company in issue at that date.

29. SHARE-BASED PAYMENTS *(Continued)*

(b) Share incentive scheme *(Continued)*

The following table discloses movements of the options issued under the Share Incentive Scheme held by the Eligible Participants during the year:

	Option category	At 1.1.2004	Granted during the year	At 31.12.2004 and 1.1.2005	Granted during the year	Forfeited during the year	At 31.12.2005
		Number of share options					
Employees	2004	–	12,652,400	12,652,400	–	(2,369,000)	10,283,400
Consultants	2004	-	1,080,000	1,080,000	–	–	1,080,000
Consultants	2005	–	–	–	1,000,000	–	1,000,000
		–	13,732,400	13,732,400	1,000,000	(2,369,000)	12,363,400

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

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29. SHARE-BASED PAYMENTS *(Continued)*

(b) Share incentive scheme *(Continued)*

The estimated fair value of the options issued under the Share Incentive Scheme was calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

		Date of grant	
	27/10/2004	**27/10/2004**	**22/12/2005**
	Employees	**Consultants**	**Consultants**
Stock price	HK$0.55 *(note)*	HK$0.55 *(note)*	HK$0.4
Exercise price	HK$0.2	HK$0.2	HK$0.2
Expected volatility	44%	44%	44%
Expected life (year)	4.5	4.5	5
Risk-free rate	2.7%	2.7%	4.62%
Expected dividend yield	3.4%	3.4%	3.4%

Note: The stock price represents the offer price on listing date as at 18 November 2004.

Expected volatility was determined by using the volatility of companies in similar industry. 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.

The Group recognised total expenses of RMB1,268,354 (2004: RMB243,808) related to equity-settled share-based payment transactions during the year.

During the year ended 31 December 2005, options were granted on 22 December 2005 and the estimated fair value per option was RMB0.24. During the year ended 31 December 2004, options were granted on 27 October 2004 and the estimated fair value per option for employees was RMB0.22 and the estimated fair value per option for consultants was RMB0.36.

Share Options granted to consultants are measured by reference to the fair value of options granted as these consultants render services similar to those as employees.

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30. OPERATING LEASES

The Group as lessee

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:

	2005	2004
	RMB	RMB
Within one year	**2,029,000**	2,013,000
In the second to fifth year inclusive	**588,000**	644,000
	2,617,000	2,657,000

Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

31. RETIREMENT BENEFITS SCHEME

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.

The amounts of such contributions charged to the consolidated income statement were RMB1,294,414 (2004: RMB926,377).

32. POST BALANCE SHEET EVENT

In December 2005, ZZNode (Beijing) entered into an agreement to dispose of its entire interest in CERI to an independent third party for a consideration RMB6,600,000 at a gain of RMB1,000,000, of which RMB5,600,000 has been received subsequent to the year end. The disposal is subject to certain conditions including the approval in the coming shareholders' meeting of CERI to be fulfilled.

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33. RELATED PARTY TRANSACTIONS

Other than the amount due from a related party as disclosed in note 23, the Group entered into the following related party transactions during 2004:

Name of related company	Nature of transaction	2005 RMB	2004 RMB
Peng Cheng Xun Dong	Sales of hardware and provision of system integration services	–	15,089,202

The transactions were transacted at terms agreed by both parties.

The remuneration directors and other members of key management during the year was disclosed in notes 11 and 12.

34. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2005 are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital registered capital	Proportion of nominal value of share capital/ registered capital held by the Company	Principal activities
Direct subsidiary				
Modern Age Investments Limited ("Modern Age")	British Virgin Islands ("BVI")	US$4,600,000	100%	Investment holding
Indirect subsidiaries				
ZZNode (Beijing)	The PRC	RMB27,441,194	100%	Provision of telecommunications and internet technologies related services and products
ZZNode (Shanghai)	The PRC	RMB1,000,000	90%	Provision of telecommunications and internet technologies related services and products
Great Process Limited	BVI	HK$100	100%	Inactive

ZZNode (Beijing) is a wholly foreign owned enterprise and ZZNode (Shanghai) is a private limited company.

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