

CHAIRMAN'S STATEMENT

Financial Review

On behalf of the board (the "Board") of directors (the "Directors") of ZZNode Technologies Company Limited (formerly known as ZZNode Holdings Company Limited) ("ZZNode Technologies" or the "Company"), I am pleased to present the interim report of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 ("period under review").

For the six months ended 30 June 2006, the Group recorded a turnover of RMB61,488,426 (2005: RMB42,024,919), representing an increase of 46.3% as compared to the last corresponding period. Of these, turnover derived from the sales of self-developed software and other related services was RMB30,100,080 (2005: RMB12,337,220), representing an increase of 144.0% as compared to the last corresponding period. Turnover derived from sales of third party software and hardware in relation to system integration increased from RMB29,687,699 in the last corresponding period to approximately 31,388,347, representing an increase of 5.7% as compared to the last corresponding period.

The Group recorded a gross profit of RMB27,261,386 (2005: RMB14,519,707). The overall gross profit margin was approximately 44.3%. Net profit attributable to shareholders was RMB7,895,206 (2005: net profit of RMB4,686,760), representing an increase of 68.5% as compared to the last corresponding period. Basic earnings per share was approximately RMB1.97 cents (2005: RMB1.17 cents).

The Board declared an interim dividend of HK\$0.7 cent per share (2005: nil).

On the whole, the growth in both turnover and profit for the first six months of 2006 was due to the increase in the Group's market share in telecommunication market in the People's Republic of China ("PRC") and the product lines had gradually come to maturity. In particular, in the Group's sales of self-developed software and other related services increase over 140% as compared to the last corresponding period to RMB30,100,080.

Business Review

The Group is principally engaged in provision of OSS software products and one-stop integration services to telecommunications service providers. As at 30 June 2006, both the Group's promotion and research and development in the telecommunications industry gained significant improvements as well as recognition from customers.

Outlook

Following a well-defined 3G policy in the PRC, the full development of the 3G network of major telecommunication operators in China will begin from 2007. After numerous years of huge investments, through three 3G product lines have been formed currently for the development of 3G network management systems, which have basically achieved diversified technical accumulation, product reserve and market operation experience for network management, network operations support and 3G business platform. The Group also actively involves in the formulation of the required standard of network management and interface and related synchronic testing. The Group is well prepared for the coming of 3G era. It is anticipated that simultaneous development of 3G network construction and network management system will bring a broad market outlook to the Group.

The research and application of NGN technology fulfills the demand of future network integration and business integration, and with the aim of multi-network integration, provides flexible user interface and business distribution, and will become the real future network development direction. NGN technology has already become the focus of major operators in future network development, and hence, NGN contains enormous commercial benefits. At the same time, development and operations of many businesses of NGN will be based on the needs of the ultimate users. These businesses will become the point of growth of profits for major operators. Therefore, NGN fulfills the needs of telecommunications development, and will become the milestone in the history of telecommunications development.

The Group will, from now on and in the future, continue with its development as well as seek cooperations with reputable multinational telecommunications conglomerates, in order to strive for greater breakthrough in research and development as well as market promotion of 8 product lines, so as to enhance the Group's competitiveness and strengthen its position in the industry and to ensure that the Group will be able to secure a considerable number of sales contracts in the market and realize sales revenue to bring greater return to its shareholders in the future.