

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 2005 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 2005 with the addition of certain new standards and amendments of Hong Kong Financial Reporting Standards ("HKFRS") issued and became effective during the period ended 30 June 2006.

The adoption of such standards or amendments does not result in substantial changes to the Group's accounting policies and has no significant effect on the results reported for the first half of 2006.

Certain comparative amounts have been restated to conform to the current period's presentation. The change relates to a more meaningful restatement in equity-settled share-based payment as follows:

	Unaudited 30 June 2006	Unaudited 30 June 2005 (Restated)
	RMB	RMB
Recognition of share-based payments as expenses	(385,948)	(755,040)

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

	Unaudited 30 June 2006	Unaudited 30 June 2005 (Restated)
	RMB	RMB
Increase in cost of sales	(127)	(237,316)
Increase in research and development expenditure	(231,836)	(179,414)
Increase in distribution costs	(22,013)	(74,585)
Increase in administrative expenses	(131,972)	(263,725)
Decrease in profit for the period	(385,948)	(755,040)

2. REVENUE 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").

Revenue represents the net amounts received and receivable for sales of hardware and software and services 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 2006

	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
REVENUE					
Sales	20,457,015	31,388,347	722,989	8,920,076	61,488,426
RESULT					
Segment result	10,244,195	4,098,377	434,632	5,233,656	20,010,859
Unallocated other income					341,732
Unallocated corporate expenses					(10,814,324)
Share of result of an associate					(720,053)
Profit before tax					8,818,214
Income tax expense					(923,008)
Net profit attributable to shareholders					7,895,206

For the six months ended 30 June 2005 (Restated)

	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
REVENUE					
Sales	10,674,469	29,687,699	1,106,596	556,155	42,024,919
RESULT					
Segment result	7,342,998	4,594,140	723,847	375,670	13,036,655
Unallocated other income					1,929,891
Unallocated corporate expenses					(9,580,659)
Profit before tax					5,385,887
Income tax expense					(699,127)
Net profit attributable to shareholders					4,686,760

3. OTHER INCOME

	Unaudited Six months ended 30 June 2006 RMB	Unaudited Six months ended 30 June 2005 RMB
Value-added tax refund income (<i>Note a</i>)	—	1,919,486
Dividend income	—	1,680,000
Government grants (<i>Note b & c</i>)	20,000	150,000
Interest income	321,732	249,891
	341,732	3,999,377

- 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.
- c. For the period ended 30 June 2006, the Group received a government grant of RMB20,000 for subsidise the Group’s employee training activities.

4. PROFIT FROM OPERATIONS

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

	Unaudited Six months ended 30 June 2006	Unaudited Six months ended 30 June 2005 (Restated)
	RMB	RMB
Staff costs, including directors’ emoluments	13,442,831	9,399,056
Auditors’ remuneration	350,000	371,000
Share-based payment expense	385,948	755,040
(Reversal of) impairment loss on trade receivables	(61,830)	809,011
Depreciation of property, plant and equipment	1,102,520	709,879
Operating lease rentals in respect of rented premises	1,459,447	1,839,713
Research and development expenditure	8,979,970	7,793,163
Add: Amortization of intangible assets	720,261	379,815
Less: amount capitalised	(2,295,719)	(4,620,440)
	7,404,512	3,552,538

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 2005 and 2006 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 2005 and 2006, the tax change represents the current tax expense for the period.

For the period ended 30 June 2005, ZZNode (Beijing) and ZZNode (Shanghai) enjoyed a reduced income tax rate of 7.5%, while for the period ended 30 June 2006, ZZNode (Beijing) and ZZNode (Shanghai) enjoyed a reduced income tax rate of 10% and 7.5% respectively.

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

6. INTERIM DIVIDEND

The directors declared an interim dividend of HK\$0.7 cents per share (2005: Nil) for the period ended 30 June 2006. This interim dividend which totals HK\$2,800,000 (2005: Nil) will be paid on 26 October 2006 to the shareholders of the Company whose names appear in the Register of Members on 28 September 2006. The interim dividend has not been recognised as a liability at the balance sheet date.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders of RMB7,895,206 (2005: RMB4,686,760) and on the weighted average number of ordinary shares of 400,000,000 (2005: 400,000,000 shares).

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding during the period ended 30 June 2005 and 2006.

8. CAPITAL EXPENDITURE

	Property, plant and equipment	Intangible assets
	RMB	RMB
Opening net book amount as at 1 January 2006	16,765,277	7,392,639
Development costs recognized as an asset	–	2,295,719
Other additions	707,407	–
Depreciation & amortisation	(1,102,520)	(720,261)
	<u>16,370,164</u>	<u>8,968,097</u>
Closing net book amount as at 30 June 2006	16,370,164	8,968,097
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	(709,879)	(379,815)
	<u>16,540,082</u>	<u>7,659,337</u>
Closing net book amount as at 30 June 2005	16,540,082	7,659,337

9. TRADE RECEIVABLES

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

	Unaudited 30 June 2006 RMB	Audited 31 December 2005 RMB
0-90 days	26,304,176	23,307,543
91-180 days	8,164,119	198,060
181-270 days	8,530,898	4,976,937
271-360 days	62,560	1,560,907
1-2 years	3,765,037	6,629,860
	46,826,790	36,673,307

10. TRADE PAYABLES AND NOTE PAYABLES

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

	Unaudited 30 June 2006 RMB	Audited 31 December 2005 RMB
0-90 days	14,336,915	18,299,202
More than 90 days	2,066,855	454,223
	16,403,770	18,753,425