



## Chairman's Statement

Dear Stakeholders

I hereby present the annual report for the year ended 31 December 2006 of ZZNode Holdings Company Limited ("ZZNode" or the "Group") on behalf of the Board of Directors.

### FINANCIAL REVIEW HIGHLIGHT

For the year ended 31 December 2006, the Group recorded a turnover of approximately RMB125,386,040 (2005: RMB97,314,518), representing an increase of 28.8% from the last financial year. The overall gross profit margin decreased from 37.0% of the last financial year to approximately 33.6% of this year. Profit attributable to shareholders amounted to approximately RMB12,357,589 (2005: RMB9,255,522), which rose by 33.5% from the last financial year. Basic earnings per share was approximately RMB3.09 cents (2005: 2.31 cents).

The Board of Directors did not recommend to pay any dividend for the year ended 31 December 2006 (2005: nil).

### BUSINESS REVIEW

The Group strives to provide advanced operational supports system ("OSS") software products and one-stop integrated services to leading telecommunications service providers since its establishment. Our major customers include mainstream telecommunications operators in PRC and overseas, and also renown international telecommunication devices suppliers.

2006 is the final year of the Group's first three-year strategic plan. As the prospect of 3G in PRC has become clear, major telecommunications operators have started to adjust their strategies. As the Olympic Games are approaching, it is finalized that China Mobile will pick up the main role in setting up TD-SCDMA, which means PRC has started to build its own 3G network and will have the intellectual property right on its own hand. Since 2002, the Group has committed on the development and research of 3G OSS related products and training of technical talents and therefore the Group launched related products compatible with TD-SCDMA technology at the end of 2006, and passed the network admission tests of relevant operators.

During the year under review, our R&D capability and management was recognized by the Ministry of Information Industry, in "certain technology breakthrough of the large mobile network" (大型移動網絡管理系統的若干技術創新) jointly launched by the Group, China Mobile and other partners which was awarded the "Significant Technological Invention in Information Industries" on the press conference of the Sixth session of Significant Technological Invention in Information Industry (信息產業重大技術發明).

The Group has achieved brilliant performance in the transmission network management solution business from China Mobile, by winning 13 provinces tenders in transmission network management application system. For the data transmission network management solution business from China Mobile, as a mainstream supplier, the Group will continue to provide advanced products and technology to its customers. For the middleware of data network management, the Company has secured the three major markets, which is data, voice and transmission, in more than 22 provinces, and is aggressively involved in building up the 3G network with China Mobile.

During the year, the Group sustained the customer base in fixed network operator market, while the contract amounts from each client have increased, indicated that the strategy of expanding product portfolio committed in the prospectus has become effective.

During the year, the Group has made a breakthrough in exploring overseas markets and it has successfully secured a NGN network OSS contract with a renown operator in Hong Kong.

According to the fund raising plan stated in the prospectus, the Company has set up branch offices in Chengdu and Hefei respectively, which has laid a solid foundation for the Group to fully expand its sales network. Meanwhile, the Group has also sent its staff to stay in Shenyang, Shijia Zhuang, Nanchang, Fuzhou, Taiyuan, Hangzhou and Lasa, gradually perfecting the Group's service network.

## **BUSINESS OUTLOOK**

Following a well defined 3G policy in China, the Group will make a breakthrough in the 3G network management.

Starting from 2006, the Group has gradually adjusted its strategy, with a view to transform the Company from a product provider into a product and service provider. In order to achieve this target, the Group has established an effective service network covering the whole country, so as to keep in touch with its customer closely and provide customised services. By doing this, the Group has gained satisfaction from its customer and realised its own value at the same time.

During the year, the Group had put much effort on R&D. In order to ensure that the products developed suit market needs, the Company has strengthened its assemblies development strategy to maintain and enhance the Group's products in an effective manner. By strengthening the aforesaid strategy, the products developed can satisfy the market demand in a short period of time, and it can also shorten the R&D cycle. By adjusting the R&D system, the internal division of work can be more reasonable, so that the development efficiency can be greatly enhanced in the long run.

With the enhanced product portfolio and the successful launching of 3G products, the development of the Company will enter into a new stage. As such, it is important to build a team of staff. In this regard, the Company has set up a core staff development programme and has provided on-the-job training to all of its staff in the belief that this will benefit the Group's future development.

The Group will forge towards our goal of becoming a domestic leading OSS product and solution provider which is 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 commitment and contribution 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 encouragement and support.

By Order of the Board

**Wang Feixue**

*Chairman*

Beijing, the PRC, 23 April 2007