



Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements of ZZNode Technologies Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 32 to the consolidated financial statements. The Group is principally engaged in the development and provision of telecommunication operational support system ("OSS") products and solutions in the PRC.

An analysis of the Group's performance for the year by business segments is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 31.

The Directors did not recommend payment of final dividend for the year ended 31 December 2006.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 18 May 2007 to 29 May 2007 (both days inclusive), and during which no transfer of shares will be effected. In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share register and transfer office in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 17 May 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

On 29 December 2006, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, distributable reserves of the Company amounted to RMB63,077,311. Movements in the distributable reserves of the Group during the year are set out in the consolidated statement of change in equity in page 34.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights requiring the Company to offer new shares to its existing shareholders in proportion to their shareholdings and there is no restriction against such rights under the laws of the Cayman Islands.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Ms. WANG Feixue (*Chairman*)

Mr. JIN Jianlin

Mr. YUAN Juan

Ms. HU Rong

Non-executive Director

Mr. ZHANG Suyang

Independent Non-executive Directors

Mr. HUNG Randy King Kuen

Mr. CHEN Xiaohong

Mr. HE Xingui

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Listing Rule 3.13 and the Company still considers all its independent non-executive Directors to be independent.

In accordance with Article 87 para (1) of the Company's Articles of Association, Ms. WANG Feixue, Mr. JIN Jialin and Mr. YUAN Juan will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Zhang Suyang is the non-executive Director and was appointed for a two-year term expiring on 31 December 2007.



Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and which will continue thereafter until terminated by a three months' notice in writing served by either party on the other.

Directors' fees paid to the independent non-executive Directors during the year totalled approximately RMB304,201. Apart from this, the independent non-executive Directors received no other emoluments from the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS

Share Option Scheme

The Group operates two equity-settled share option schemes, (a) the Share Option Scheme (as defined in the Prospectus) and (b) the Share Incentive Scheme (as defined in the Prospectus), under which the Board may, at its discretion, offer any employees (whether full time or part time), executives or officers of the Company or any of its subsidiaries (including any executive Director), consultants, agents or legal and financial advisers to the Company or its subsidiaries whom the Board considers, in its sole discretion, as having contributed to the Company or any of its subsidiaries.

Details of share options outstanding as at 31 December 2006 under (a) the Share Option Scheme and (b) the Share Incentive Scheme are as follows:

(a) Share Option Scheme

As at 20 January 2006, 4 options carrying the right to subscribe for an aggregate of 10,000,000 shares of the Company have been granted to 4 Directors at the consideration of HK\$1.00 for each grantee.

List of Grantee	Balance as at 1 January 2006	Grant during the period	Exercised during the period	Forfeited during the period	Balance as at 31 December 2006
Name of directors					
Ms. WANG Feixue	-	4,000,000	-	-	4,000,000
Mr. JIN Jianlin	-	4,000,000	-	-	4,000,000
Mr. YUAN Juan	-	1,500,000	-	-	1,500,000
Ms. HU Rong	-	500,000	-	-	500,000
	-	10,000,000	-	-	10,000,000

(b) Share Incentive Scheme

Option category		Balance as at 1 January 2006	Grant during the period	Exercised during the period	Forfeited during the period	Balance as at 31 December 2006
Employees	2004	10,283,400	-	(168,000)	(2,784,000)	7,331,400
Consultants	2004	1,080,000	-	-	(90,000)	990,000
Consultants	2005	1,000,000	-	-	-	1,000,000
Employees	2006	-	1,140,000	-	(60,000)	1,080,000
		12,363,400	1,140,000	(168,000)	(2,934,000)	10,401,400

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
2006	14/3/2006	14/3/2007-14/3/2011	HK\$0.2



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares (as defined in the Securities and Futures Ordinance (the "SFO")) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Interests and short positions in the shares/underlying shares and debentures of the Company

Name of Directors/ chief executives of the Company	Nature of interests	No. of shares/ underlying shares in the Company	Approximate percentage of the issued share capital in the Company
Ms. WANG Feixue	Corporate (long position) (Note 1)	155,604,108	39.39%
	Personal (long position)	4,000,000	1.01%
Mr. JIN Jianlin	Corporate (long position) (Note 2)	173,436,108	43.91%
	Personal (long position)	4,000,000	1.01%
	Corporate (short position) (Note 3)	10,401,400	2.63%
Ms. HU Rong	Corporate (long position) (Note 4)	25,483,000	6.45%
	Personal (long position)	500,000	0.13%
Mr. YUAN Juan	Personal (long position)	1,500,000	0.38%

Notes:

- Ms. WANG Feixue, an executive Director, is interested in approximately 37.69% of the shares in Bright Pearl Holdings Limited ("Bright Pearl") and she is also the sole director of Bright Pearl. Therefore, Ms. WANG Feixue is deemed or taken to be interested in the shares of the Company which are owned by Bright Pearl.
- Mr. JIN Jianlin, an executive Director, owns the entire equity interests in Silver Well Investment Limited ("Silver Well"). Therefore, Mr. JIN Jianlin is deemed or taken to be interested in the shares of the Company which are held by Silver Well as a trustee on trust for certain employees, officers, consultants, agents and advisers of the Group selected as eligible to participate in a share incentive scheme for the Group ("Share Incentive Scheme"). Details of the Share Incentive Scheme have been disclosed in the Prospectus. In addition, Mr. JIN Jianlin is interested in approximately 35.17% of the shares in Bright Pearl and therefore he is deemed or taken to be interested in the shares of the Company which are owned by Bright Pearl.

3. As at 31 December 2006, 10,401,400 options have been granted by Silver Well to eligible participants under the Share Incentive Scheme, and upon the exercise of such options in full, 10,401,400 shares will be transferred to such eligible participants.
4. Ms. HU Rong, an executive Director, owns the entire equity interests in New Wingo Investments Limited ("New Wingo"). Therefore, Ms. HU Rong is deemed or taken to be interested in the shares of the Company which are owned by New Wingo.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2006, the following persons (other than Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of substantial shareholders of the Company	Nature of interests	No. of shares/ underlying shares in the Company	Approximate percentage of the issued share capital in the Company
Bright Pearl	Corporate (Note 1)	155,604,108	39.39%
New Wingo	Corporate (Note 2)	25,483,000	6.45%
IDG Technology Venture Investments, LP ("IDGVC")	Corporate (Note 3)	30,000,000	7.59%
IDG Technology Venture Investments, LLC	Corporate (Note 3)	30,000,000	7.59%
Atlantis Investment Management Ltd	Corporate	36,080,000	9.13%

Notes:

1. Bright Pearl is an investment holding company with limited liability incorporated in the British Virgin Islands on 8 August 2003, which is owned as to approximately 37.69%, 35.17%, 7.27%, 14.83%, 2.47%, 1.54%, and 1.02% by each of 王飛雪女士 (Ms. WANG Feixue), 金建林先生 (Mr. JIN Jianlin), 董如萍女士 (Ms. DONG Ruping), 袁雋先生 (Mr. YUAN Jun), 劉澎先生 (Mr. LIU Peng), 王德傑先生 (Mr. WANG Dejie), and 劉偉先生 (Mr. LIU Wei) respectively. 王飛雪女士 (Ms. WANG Feixue), 金建林先生 (Mr. JIN Jianlin) and 袁雋先生 (Mr. YUAN Jun) are the executive Directors.



Report of the Directors

2. New Wingo is an investment holding company with limited liability incorporated in the British Virgin Islands on 18 August 2003, which is wholly owned by 胡榮女士 (Ms. HU Rong) and will be deemed to be interested in 25,483,000 shares of the Company. 胡榮女士 (Ms. HU Rong) is an executive Director and the financial controller of the Group's PRC subsidiaries and branch offices.
3. IDGVC is a Delaware limited partnership, which is controlled by IDG Technology Venture Investments, LLC, its general partner.

Save as disclosed above, as at 31 December 2006, there was no other person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

As at 31 December 2006, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases for the year attributable to the Group's major suppliers is as follows:

	Percentage of purchases
The largest supplier	19.9%
Five largest suppliers combined	42.4%

The percentage of sales for the year attributable to the Group's major customers is as follows:

	Percentage of sales
The largest customer	45.6%
Five largest customers combined	72.0%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED PARTY TRANSACTIONS

In respect of the related party transaction disclosed in note 31 to the consolidated financial statements, it does not fall within the definition of connected transaction as defined in the Chapter 14A of the Listing Rules because none of the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Company or its subsidiaries or any of their associates (as defined in the Listing Rules) holds any interest in the related party dealing with the Group. Furthermore, the Directors have confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

The Company repurchased 5,000,000 ordinary shares from the public market at a price of HK\$0.4 on 29 December 2006, with a total cost of HK\$2,000,000. These shares have been cancelled. As the Board believes that the share price cannot reflect the value of the Company at that time, it therefore decided to conduct a repurchase.

Save for the above, for the year ended 31 December 2006, the Company or its subsidiaries did not purchase, sell or redeem any shares of the Company.

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year of 2006.

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 24 to 27 of this annual report for details of its compliance with the Code on Corporate Governance Practices.

AUDITORS

The accounts have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment as the Company's auditors. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors to the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

WANG Feixue

Chairman

Beijing, the PRC, 23 April 2007