



# 直真科技有限公司 ZZNode Technologies Company Limited

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 2371)

2007  
INTERIM REPORT



## CHAIRMAN'S STATEMENT

### Financial Review

On behalf of the board (the "Board") of directors (the "Directors") of ZZNode Technologies 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 2007 ("period under review").

For the six months ended 30 June 2007, the Group recorded a turnover of RMB47,882,022 (2006: RMB61,488,426), representing a decrease of 22.1% as compared to the last corresponding period. Of these, turnover derived from the sales of self-developed software and other related services was RMB31,045,296 (2006: RMB30,100,080), representing an increase of 3.1% as compared to the last corresponding period. Turnover derived from sales of third party software and hardware in relation to system integration decreased from RMB31,388,347 in the last corresponding period to approximately RMB16,836,726, representing a decrease of 46.4% as compared to the last corresponding period.

The Group recorded a gross profit of RMB16,743,545 (2006: RMB27,261,386). The overall gross profit margin was approximately 35.0%. Net loss attributable to shareholders was RMB566,466 (2006: Net profit of RMB7,895,206). Loss per share was approximately RMB0.14 cents (2006: Earning per share RMB1.97 cents).

The decrease in turnover for the first half of the year 2007 was due to the effect of centralized procurement by telecommunication service operators on the industry which affect the whole industry and Group's operation. The decrease in gross margin mainly attributable to the decrease in gross margin in sales of self-developed software. The net loss incurred for the current period was mainly attributable to the decrease in turnover and the increase in administrative expenses. The increase in administrative expenses mainly due to the issuance of share option under the share option scheme and the increase in other expenses, such as auditors' remuneration. The total expenses related to the share-based payment, include both share option scheme and share incentive scheme were RMB2,058,626.

The Board has resolved not to declared interim dividend for the six months ended 30 June 2007 (2006: HK\$2,800,000).

### Business Review

The Group is principally engaged in provision of OSS software products and one-stop integration services to telecommunications service providers. Under the influence of centralized procurement by headquarters of the telecommunications operators, the Group was suffered by project completion delayed, increase in operating cost and revenue declined. As at 30 June 2007, to adapt the market changes, the Group reformed itself and focused on business unit as the operating core, strengthened internal control and strengthened sales strategies to telecommunication headquarters.

## Outlook

Operators will continue to adopt the centralized procurement in the OSS industry and service providers which fail to adapt to this mode will be drive out. Each subdivided market will then have 2 to 3 services providers which are equipped with comprehensive competitive edge. The Group will become one of the product and service providers which can continue to exist. However, the income and growth of the Group will depend on the implementation of the Group's innovative skill management and cost control policy.

As the China's 3G network development policy becomes more evident, TD-SCDMA, which represents China's own intellectual property right, will begin its establishment in Olympic cities this year. The actual output of 3G OSS of the Group does not conform to its market expectation and revenue forecast when it is put into use. Whether we are able to achieve breakthroughs in 3G OSS business depends on the reorganization progress of the operators and the Group's research and development input control.

As the irrevocable trend of replacement of fixed network by mobile network continues, fixed network operator's input into NGN network does not conform to market expectation. Although the Group succeeds in being the first to kick start the overseas market and produces the NGN network management product which reaches international level, its breakthrough in mainland market relies on the decisiveness of the reorganization progress and investment aim of the operators.

At present and in future, the major objectives of the management on the existing OSS business will include: boosting internal reform to adapt customer changes, reducing costs, improving efficiency, maintaining its position in the industry, explore new customers and looking for new revenue sources for the Group.

## Appreciation

On behalf of the Board, I would like to express sincere thanks to all our management and staff for their commitments and contributions. I would also like to take this opportunity to thank our shareholders, investors and customers for their heartfelt encouragements and supports.

By Order of the Board

**Wang Feixue**

*Chairman*

Beijing, the PRC, 24 September 2007

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the first half of the year 2007, all telecommunications operators adopted the centralized procurement through its headquarters. Centralized procurement has beaten the equipment provider, software and service providers. It did not only has an impact on amounts of newly-signed contracts, but also increased the delay in projects completion. Hence, it led to an increase in operating cost thus affecting the revenue.

Under such business environment, the Group, on one hand, reduced project costs and enhanced efficiency through improving project management, strengthening internal control and boosting reform with business unit as operation core; on the other hand, the Group remedied the insufficiencies of existing business through enhancing service standard and strived to extend existing contracts with customers.

### Sales Strategies

The Group set up marketing department in Beijing, Shanghai, Guangzhou, Chengdu and Hefei in China. The marketing department was responsible for the overall marketing strategies, sales promotion, market analysis, identification of the needs of new customers, new business development, provision of technical support to the sales division and customer service.

In this year, we will adhere to the characteristic of centralized procurement of the operators and change the Group's sales strategies from tapping new markets to concentrate the sales at headquarter, so as to reform the structure of the sales and marketing team to suit changes in the market.

Increasing input into quality customers, tapping customers' demand and strengthening sales service are one of the Group's strategies to adapt to customers' changes.

Besides continuing to provide OSS software for the four major operators in China, we will also expand customer base in other industries to raise the Group's revenue and profit.

### Customers

The Group's customers comprise the four major telecommunications operators, covering 31 provinces in the PRC, one telecommunication operator in Hong Kong as well as enterprises and private network customers.

### Product Research and Development

In the first half of the year 2007, in order to adapt to the characteristics of telecommunication OSS software and the customers' demand to the OSS software service, the Group has seized several tasks:

- Assembly model: under the existing series of product, the Group, after succeeding the trial and testing of assemblies development in 2006, has reformed and upgraded in two major product lines, ie., transmission and data.
- transformation of software structure to SOA: the Group slowly transformed the software platform to SOA (Service Oriented Architecture) structure and integrated its own research and development work to establish an OSS oriented platform and componential database. Through assembling re-usable components into tailor-made application to satisfy customers' demand, the Group laid a foundation to improve efficiency and reduce costs.
- improve research and development work-flow through boosting the implementation of CMMI4, the Group raised its quantifiable management level and laid a foundation for its philosophy "streamline management". The Group was planning to pass the official assessment of CMMI4 in the third quarter.

### **Internal Reform and Management**

The Group restructured its internal organization timely according to the changes in industrial characteristic. It was reflected in:

- integration of the product line: improving product combination through business unit so as to provide speedy response to customers and raise the Group's competitiveness;
- in its offices in Beijing, the Group consolidated the products and underwent assemble development. Business unit and research and development team interacted with each other to boost an edge from each other.
- strengthening of on-the-site customer services and increase services fee income.

### **Awards and Honours**

As at 30 June 2007, the Group had acquired 56 copyright certificates, 24 software product registration certificates and was applying for 6 invention patent. There were three products currently under the process of review for invention patent and three invention patents has passed preliminary review.

In March 2007, the Group was admitted by Zhongguancun Science Park as an innovative experimenting enterprise. The Company's NRMS and SA system (網絡資源管理與業務保障系統項目) was awarded a specialized project in scientific mobilization (科技興貿行動專項項目) by the Torch Hi-tech Industry Development Centre.

### **Liquidity and Financial Resources**

The Group generally financed its operations with internally generated cash flows.

As at 30 June 2007, the Group had cash and cash equivalents of approximately RMB9,100,619 and bank deposits of RMB46,231,551 as compared to the bank balance and cash of RMB9,975,850 and bank deposits of RMB55,685,220 as at 31 December 2006.

### **Gearing Ratio**

As at 30 June 2007, the Group did not have any long-term debts while its shareholders' funds amounted to approximately RMB138,127,713. In this regard, the Group held a net cash position while its gearing ratio (net debt to shareholders' funds) was nil as at 30 June 2007.

### **Capital Structure**

There has been no change in the capital structure of the Company during the period. The capital of the Company comprises only ordinary shares. As at 30 June 2007, 395,000,000 shares were in issue (31 December 2006: 395,000,000 shares). The Company and the Group have no borrowings or long-term debts.

### **Significant Investment**

As at 30 June 2007, the Group did not have any significant investments.

### **Material Acquisitions and Disposals/Future Plans for Material Investments**

The Group has no plans for material investments or material acquisitions of capital assets.

### **Foreign Exchange Exposure**

The Group mainly earns revenue and incurs costs in Renminbi and Hong Kong dollars. The Directors believe that the operations of the Group are not subject to significant exchange risk.

### **Charge on Group's Assets**

As at 30 June 2007, the Group did not have any charges on its assets.

### **Contingent Liability**

As at 30 June 2007, the Group did not have any significant contingent liabilities.

### **Employee Information and Remuneration Policies**

As at 30 June 2007, the Group has 392 employees (as at 31 December 2006: 385) working in the PRC. The Group remunerates its employees on their performance, experience and prevailing industry practices. The Directors are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.

**UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	<i>Notes</i>	<b>Unaudited Six months ended 30 June 2007 RMB</b>	Unaudited Six months ended 30 June 2006 RMB
Revenue	2	<b>47,882,022</b>	61,488,426
Cost of sales		<b><u>(31,138,477)</u></b>	<u>(34,227,040)</u>
Gross profit		<b>16,743,545</b>	27,261,386
Other income	3	<b>3,781,795</b>	341,732
Research and development expenditure		<b>(7,867,717)</b>	(7,404,512)
Distribution costs		<b>(2,465,268)</b>	(3,065,442)
Administrative expenses		<b><u>(10,768,316)</u></b>	<u>(7,594,897)</u>
(Loss)/profit from operations	4	<b>(575,961)</b>	9,538,267
Share of result of an associate		<b><u>131,435</u></b>	<u>(720,053)</u>
(Loss)/profit before tax		<b>(444,526)</b>	8,818,214
Income tax expense	5	<b><u>(121,940)</u></b>	<u>(923,008)</u>
(Loss)/profit for the period		<b><u><u>(566,466)</u></u></b>	<u><u>7,895,206</u></u>
(Loss)/earning per share			
– Basic (RMB cents)	7	<b><u><u>(0.14)</u></u></b>	<u><u>1.97</u></u>
Dividend	6	<b><u><u>–</u></u></b>	<u><u>–</u></u>

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

		<b>Unaudited 30 June 2007</b>	Audited 31 December 2006
	<i>Notes</i>	<i>RMB</i>	<i>RMB</i>
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>17,321,143</b>	15,577,092
Intangible assets	8	<b>4,374,545</b>	8,777,141
Interest in an associate		<b>6,086,416</b>	5,954,982
		<b>27,782,104</b>	30,309,215
<b>Current assets</b>			
Inventories		<b>4,617,731</b>	3,888,655
Amounts due from customers for integration solutions		<b>9,287,655</b>	7,944,315
Trade receivables	9	<b>58,167,821</b>	49,320,233
Note receivables	9	–	16,963,953
Prepayment, deposits and other receivables		<b>8,370,048</b>	4,738,706
Amount due from a related party		–	950,000
Bank deposits		<b>46,231,551</b>	55,685,220
Bank balances and cash		<b>9,100,619</b>	9,975,850
		<b>135,775,425</b>	149,466,932
<b>Current Liabilities</b>			
Trade payables	10	<b>13,218,877</b>	14,032,190
Notes payable	10	–	640,000
Advance from customers, accrued charges and other payables		<b>10,433,965</b>	9,849,417
Tax liabilities		<b>1,357,025</b>	938,100
Note receivables discounted with recourse		–	16,963,953
		<b>25,009,867</b>	42,423,660
<b>Net current assets</b>		<b>110,765,558</b>	107,043,272
		<b>138,547,662</b>	137,352,487
<b>Capital and reserves</b>			
Share Capital		<b>41,897,665</b>	41,897,665
Reserves		<b>96,230,048</b>	94,737,888
		<b>138,127,713</b>	136,635,553
<b>Non-Current liability</b>			
Deferred tax liabilities		<b>419,949</b>	716,934
		<b>138,547,662</b>	137,352,487



## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share Capital	Share premium	Special reserve	Statutory surplus		Discretionary reserve	Translation reserve	Capital redemption reserve	Share option reserve	Contribution from shareholders	Retained earnings	Total
				Statutory surplus	public welfare							
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 January 2007	41,897,665	-	15,535,611	9,610,472	-	495,820	-	502,335	1,818,368	1,948,695	64,826,587	136,635,553
Net loss for the period	-	-	-	-	-	-	-	-	-	-	(566,466)	(566,466)
Recognition of equity - settled share - based payments	-	-	-	-	-	-	-	-	2,098,303	(39,677)	-	2,058,626
At 30 June 2007	<u>41,897,665</u>	<u>-</u>	<u>15,535,611</u>	<u>9,610,472</u>	<u>-</u>	<u>495,820</u>	<u>-</u>	<u>502,335</u>	<u>3,916,671</u>	<u>1,909,018</u>	<u>64,260,121</u>	<u>138,127,713</u>
At 1 January 2006	42,400,000	636,000	15,535,611	6,139,673	3,470,799	495,820	58,699	-	-	1,512,162	56,596,799	126,845,563
Net profit for the period	-	-	-	-	-	-	-	-	-	-	7,895,206	7,895,206
Recognition of equity - settled share - based payments	-	-	-	-	-	-	-	-	-	385,948	-	385,948
At 30 June 2006	<u>42,400,000</u>	<u>636,000</u>	<u>15,535,611</u>	<u>6,139,673</u>	<u>3,470,799</u>	<u>495,820</u>	<u>58,699</u>	<u>-</u>	<u>-</u>	<u>1,898,110</u>	<u>64,492,005</u>	<u>135,126,717</u>

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	<b>Unaudited Six months ended 30 June 2007 RMB</b>	Unaudited Six months ended 30 June 2006 RMB
Net cash used in operating activities	(8,076,421)	(12,965,334)
Net cash from investing activities	7,201,190	4,960,306
Net cash used in financing activities	—	—
Net decrease in cash and cash equivalents	(875,231)	(8,005,028)
Cash and cash equivalents at 1 January	9,975,850	46,033,036
Cash and cash equivalents at 30 June, representing bank balances and cash	<b>9,100,619</b>	38,028,008

## 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 2006 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 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group’s financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) - INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK(IFRIC) - INT 10	Interim financial reporting and impairment <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC)-INT 12	Service concession arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.

The Directors anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

## 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 2007

	Sale of self-developed software <i>RMB</i>	Sale of third party software and hardware in relation to system integration business <i>RMB</i>	System integration <i>RMB</i>	Maintenance, training and other services <i>RMB</i>	Total <i>RMB</i>
<b>REVENUE</b>					
Sales	<u>21,120,439</u>	<u>16,836,726</u>	<u>764,825</u>	<u>9,160,032</u>	<u>47,882,022</u>
<b>RESULT</b>					
Segment result	<u>3,107,896</u>	<u>3,379,424</u>	<u>474,304</u>	<u>4,978,151</u>	11,939,775
Unallocated other income					769,696
Unallocated corporate expenses					(13,285,432)
Share of result of an associate					<u>131,435</u>
Loss before tax					<u>(444,526)</u>
Income tax expense					<u>(121,940)</u>
Loss attributable to shareholders					<u>(566,466)</u>

For the six months ended 30 June 2006

	Sale of self-developed software <i>RMB</i>	Sale of third party software and hardware in relation to system integration business <i>RMB</i>	System integration <i>RMB</i>	Maintenance, training and other services <i>RMB</i>	Total <i>RMB</i>
<b>REVENUE</b>					
Sales	<u>20,457,015</u>	<u>31,388,347</u>	<u>722,989</u>	<u>8,920,076</u>	<u>61,488,426</u>
<b>RESULT</b>					
Segment result	<u>10,244,195</u>	<u>4,098,377</u>	<u>434,632</u>	<u>5,233,656</u>	20,010,859
Unallocated other income					341,732
Unallocated corporate expenses					(10,814,324)
Share of result of an associate					<u>(720,053)</u>
Profit before tax					<u>8,818,214</u>
Income tax expense					<u>(923,008)</u>
Net profit attributable to shareholders					<u>7,895,206</u>

## 3. OTHER INCOME

	<b>Unaudited Six months ended 30 June 2007 RMB</b>	Unaudited Six months ended 30 June 2006 RMB
Value-added tax refund income (a)	<b>3,012,099</b>	–
Interest income	<b>680,299</b>	321,732
Others	<b>89,397</b>	20,000
	<b><u>3,781,795</u></b>	<u>341,732</u>

- 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.

#### 4. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived at after charging or crediting:

	<b>Unaudited Six months ended 30 June 2007 RMB</b>	Unaudited Six months ended 30 June 2006 RMB
Staff costs, including directors' emoluments	<b>13,635,534</b>	13,442,831
Auditors' remuneration	<b>1,100,000</b>	350,000
Share-based payment expense	<b>2,058,626</b>	385,948
Impairment (reversal of) loss on trade receivables	<b>470,612</b>	(61,830)
Depreciation of property, plant and equipment	<b>1,038,992</b>	1,102,520
Operating lease rentals in respect of rented premises	<b>1,215,539</b>	1,459,447
Research and development expenditure	<b>4,840,121</b>	8,979,970
Add: Amortization of intangible assets	<b>3,027,596</b>	720,261
Less: amount capitalised	<b>—</b>	(2,295,719)
	<b><u>7,867,717</u></b>	<b><u>7,404,512</u></b>

#### 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 2006 and 2007 as the Group's income neither arises in, nor is derived from Hong Kong.

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》。

The exemption and tax reduction of the PRC Enterprise Income Tax for ZZNode (Shanghai) has been expired on 31 December 2006.

For the periods ended 30 June 2006 and 2007, the tax charge represents the current tax expense for the period.

For the period ended 30 June 2006, ZZNode (Beijing) and ZZNode (Shanghai) enjoyed a reduced income tax rate of 10% and 7.5% respectively, while for the period ended 30 June 2007, ZZNode (Beijing) enjoyed a reduced income tax rate of 10%. The tax rate of ZZNode (Shanghai) for the period ended 30 June 2007 is 15%.

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

**6. INTERIM DIVIDEND**

No dividends were declared by the Company during the six months ended 30 June 2007. For the period ended 30 June 2006, the directors declared an interim dividend of HK\$0.7 cents per share. The interim dividend has not been recognised as a liability at 30 June 2006.

**7. (LOSS)/EARNINGS PER SHARE**

The calculation of basic (loss)/earnings per share is based on the Group's net loss attributable to shareholders of RMB566,466 (2006 net profit: RMB7,895,206) and on the weighted average number of ordinary shares of 395,000,000 (2006: 400,000,000 shares).

No diluted earnings per share has been presented as the average market price of ordinary shares exceeds the exercise price of the options for the period and there were no other potential ordinary shares outstanding during the period.



## 8. CAPITAL EXPENDITURE

	Property, plant and equipment <i>RMB</i>	Intangible assets <i>RMB</i>
Opening net book amount as at 1 January 2007	15,577,092	8,777,141
Development costs recognized as an asset	-	-
Additions	2,996,182	-
Disposals	(213,139)	(1,375,000)
Depreciation & amortisation	<u>(1,038,992)</u>	<u>(3,027,596)</u>
Closing net book amount as at 30 June 2007	<u>17,321,143</u>	<u>4,374,545</u>
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	<u>(1,102,520)</u>	<u>(720,261)</u>
Closing net book amount as at 30 June 2006	<u>16,370,164</u>	<u>8,968,097</u>

## 9. TRADE RECEIVABLES AND NOTES RECEIVABLE

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 2007 <i>RMB</i>	Audited 31 December 2006 <i>RMB</i>
0-90 days	47,802,537	46,327,027
91-180 days	783,146	5,258,837
181-270 days	5,036,570	8,776,758
271-360 days	540,385	2,508,149
1-2 years	<u>4,005,183</u>	<u>3,413,415</u>
	<u>58,167,821</u>	<u>66,284,186</u>

**10. TRADE PAYABLES AND NOTE PAYABLES**

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

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b>RMB</b>	<b>RMB</b>
0-90 days	<b>3,155,897</b>	5,949,323
More than 90 days	<b>10,062,980</b>	8,722,867
	<b>13,218,877</b>	14,672,190

**11. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE**

As disclosed in an announcement on 15 August 2007, the Company has been informed by its controlling shareholder (as defined in the Listing Rules), Bright Pearl Holdings Limited, together with Grand Advance Investment Limited and IDG Technology Venture Investments LP, who hold 155,604,108 shares, 13,000,000 shares and 30,000,000 shares of the Company respectively (representing approximately 39.39%, 3.25% and 7.59% respectively of the issued share capital of the Company), that they were considering a possible disposal of their shares of the Company.

The Company was informed by these shareholders that following the above announcement, they had carried out further discussion with the independent potential investor but no agreement has been reached as at the date of this report. Agreement may or may not be successfully reached between the parties concerned. However, if an agreement is finally reached, it may lead to a change in control of the Company.

## 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 30 June 2007 under (a) the Share Option Scheme and (b) the Share Incentive Scheme were as follows:

### (a) Share Option Scheme

As at 23 April 2007, 9 options carrying the right to subscribe for an aggregate of 14,900,000 shares of the Company have been granted to 4 Directors and 5 Senior Management at the consideration of HK\$1.00 for each grantee.

<b>List of Grantee</b>	<b>Balance as at 1 January 2007</b>	<b>Grant during the period</b>	<b>Exercised during the period</b>	<b>Forfeited during the period</b>	<b>Balance as at 30 June 2007</b>
<i>Name of directors</i>					
Ms. WANG Feixue	4,000,000	3,950,000	–	–	7,950,000
Mr. JIN Jianlin	4,000,000	3,950,000	–	–	7,950,000
Mr. YUAN Juan	1,500,000	3,000,000	–	–	4,500,000
Ms. HU Rong	500,000	500,000	–	–	1,000,000
Senior Management	–	3,500,000	–	–	3,500,000
	<u>10,000,000</u>	<u>14,900,000</u>	<u>–</u>	<u>–</u>	<u>24,900,000</u>

**(b) Share Incentive Scheme**

		<b>Balance</b>				<b>Balance</b>
		<b>as at</b>	<b>Grant</b>	<b>Exercised</b>	<b>Forfeited</b>	<b>as at</b>
<b>Option</b>	<b>category</b>	<b>1 January</b>	<b>during</b>	<b>during</b>	<b>during</b>	<b>30 June</b>
		<b>2007</b>	<b>the period</b>	<b>the period</b>	<b>the period</b>	<b>2007</b>
Employees	2004	7,331,400	–	(880,000)	(1,026,000)	5,425,400
Consultants	2004	990,000	–	–	–	990,000
Consultants	2005	1,000,000	–	–	–	976,000
Employees	2006	<u>1,080,000</u>	–	<u>(24,000)</u>	<u>(108,000)</u>	<u>972,000</u>
		<u>10,401,400</u>	<u>–</u>	<u>(904,000)</u>	<u>(1,134,000)</u>	<u>8,363,400</u>

Details of specific categories of options are as follows:

	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price</b>
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

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

As at 30 June 2007, 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) ( <i>Note 1</i> )	155,604,108	39.39%
	Personal (long position)	7,950,000	2.01%
Mr. JIN Jianlin	Corporate (long position) ( <i>Note 2</i> )	172,113,148	43.57%
	Personal (long position)	7,950,000	2.01%
	Corporate (short position) ( <i>Note 3</i> )	8,363,400	2.12%
Ms. HU Rong	Corporate (long position) ( <i>Note 4</i> )	25,483,000	6.45%
	Personal (long position)	1,000,000	0.25%
Mr. YUAN Juan	Personal (long position)	4,500,000	1.14%

### 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 owned by Silver Well 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 30 June 2007, 8,363,400 options have been granted by Silver Well to eligible participants under the Share Incentive Scheme, and upon the exercise of such options in full, 8,363,400 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 30 June 2007, 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 30 June 2007, 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 ( <i>Note 1</i> )	155,604,108	39.39%
New Wingo	Corporate ( <i>Note 2</i> )	25,483,000	6.45%
IDG Technology Venture Investments, LP (“IDGVC”)	Corporate ( <i>Note 3</i> )	30,000,000	7.59%
IDG Technology Venture Investments, LLC	Corporate ( <i>Note 3</i> )	30,000,000	7.59%
Atlantis Investment Management Ltd	Corporate	40,500,000	10.25%

### Notes:

- 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.
- 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. RU Rong) and will be deemed to be interested in 25,483,000 shares of the Company. 胡榮女士 (Ms. RU Rong) is an executive Director and the financial controller of the Group’s PRC subsidiaries and branch offices.
- IDGVC is a Delaware limited partnership, which is controlled by IDG Technology Venture Investments, LLC, its general partner.

Save as disclosed above, as at 30 June 2007, the Company had not been notified of any interest or short position being held by any substantial shareholder in the shares or underlying shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (for the six months ended 30 June 2006: HK\$2,800,000).

## **CORPORATE GOVERNANCE PRACTICES**

Throughout the period, the Company was in general compliance with the Code on Corporate Governance Practices (“Corporate Governance Code”) as set out in Appendix 14 of the Listing Rules.

## **CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS**

During the six months ended 30 June 2007, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code as set out in Appendix 10 of the Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors’ securities transactions.

## **AUDIT COMMITTEE**

The primary duties of the audit committee are to review the financial reporting process and internal control systems of the Group. The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive Directors, namely Mr. HUNG Randy King Kuen (Chairman of the audit committee), Mr. CHEN Xiaohong and Mr. HE Xingui. The interim results for the six months ended 30 June 2007 have been reviewed by the Audit Committee.



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

There has been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the period.

By order of the board of Directors  
**ZZNode Technologies Company Limited**  
**Wang Feixue**  
*Chairman*

The Directors of the Company as at the date of this report are as follows:

*Executive Directors*

WANG Feixue (*Chairman*)  
JIN Jianlin  
HU Rong  
YUAN Juan

*Independent Non-Executive Directors*

HUNG Randy King Kuen  
CHEN Xiaohong  
HE Xingui

*Non-Executive Director*

ZHANG Suyang

Beijing, the PRC, 24 September 2007