ZZNode Technologies Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2371)

Annual Report

2007

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Christian Emil TOGGENBURGER
Ms. CHAN Shui Sheung, Ivy
Ms. SO Wai Lam

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Shiu Ki
Mr. LAM Raymond Shiu Cheung
Mr. LAM Ka Wai, Graham

COMPANY SECRETARY

Ms. TSOI Lai Kwan

QUALIFIED ACCOUNTANT

Ms. TSOI Lai Kwan

AUDIT COMMITTEE

Mr. LAM Ka Wai, Graham
(Chairman of the Audit Committee)
Mr. LAM Raymond Shiu Cheung
Mr. CHOW Shiu Ki

REMUNERATION COMMITTEE

Mr. LAM Ka Wai, Graham
(Chairman of the Remuneration Committee)
Mr. LAM Raymond Shiu Cheung
Ms. CHAN Shui Sheung, Ivy

NOMINATION COMMITTEE

Mr. CHOW Shiu Ki (Chairman of the Nomination Committee)
Ms. CHAN Shui Sheung, Ivy
Mr. LAM Ka Wai, Graham

AUTHORISED REPRESENTATIVES

Ms. TSOI Lai Kwan
Ms. CHAN Shui Sheung, Ivy

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

Fubon Bank (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 1205-1207
12th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O.Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

www.zznode.com

STOCK CODE

2371

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years prepared on the basis set out in the notes below:

RESULTS

	2007	2006	2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Revenue	**85,117,959**	125,386,040	97,314,518	108,226,076	92,197,274
Gross profit	**20,352,220**	42,113,281	35,982,864	49,875,857	43,102,893
(Loss) profit before tax	**(20,174,111)**	12,448,334	9,983,261	29,740,307	27,017,329
(Loss) profit for the year	**(19,457,177)**	12,357,589	9,255,522	28,279,855	25,346,538
Basic (Loss) earnings Per Share (RMB cents)	**(4.93)**	3.09	2.31	9.06	8.45

ASSETS AND LIABILITIES

	2007	2006	2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Non-current assets	**25,101,847**	30,309,215	34,133,871	13,472,751	12,610,661
Current assets	**127,219,620**	149,466,932	124,593,213	138,818,176	119,870,628
Current liabilities	**(32,934,597)**	(42,423,660)	(31,255,332)	(28,769,240)	(80,471,975)
Net current assets	**94,285,023**	107,043,272	93,337,881	110,048,936	39,398,653
Shareholders' funds	**119,386,870**	136,635,553	126,845,563	123,521,687	52,009,314

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB85,117,959 (2006: RMB125,386,040), representing a decrease of 32.1% as compared to that of last year. Of these, turnover derived from the sales of self-developed software was approximately RMB36,628,089 (2006: RMB36,983,360), representing a decrease of 1.0%. Turnover derived from sales of third party software and hardware decreased from approximately RMB73,299,551 in last year to approximately RMB33,129,936, representing a decrease of 54.8%. Turnover derived from system integration, maintenance and other services was approximately RMB15,359,934 (2006: RMB15,103,129).

Turnover decrease in 2007 was mainly attributable to the decrease in sales of third party software and hardware, which amounted to RMB33,129,936, and represented decrease of 54.8%.

The Group recorded a gross profit of RMB20,352,220 (2006: RMB42,113,281). The overall gross margin was decreased from approximately 33.6% of last year to approximately 23.9% of this year, mainly attributable to the decrease in gross margin in sales of self-developed software and third party software and hardware. Such decline was mainly due to keen competition in the market.

The increase in administrative expenses by 47.0% from RMB20,019,831 of last year to RMB29,433,605 in this year mainly attributable to the increase in impairment losses on trade receivables amounted to RMB9,198,341 (2006: Nil).

Loss attributable to shareholders was approximately RMB19,457,177 for the year (2006: profit of RMB12,357,589). Basic loss per share were approximately RMB4.93 cents for the year (2006: Basic earnings per share RMB3.09 cents).

The Board of Directors of the Company did not recommend to pay any final dividend for the year ended 31 December 2007 (2006: nil).

Management Discussion and Analysis

BUSINESS REVIEW

The Group was principally engaged in the provision of operational support system (OSS) software products and one-stop integrated services to telecommunications operators. Major customers of the Group included China Mobile and other members of the "Big Four" telecommunications conglomerates in China. Geographically, the Group's business covered 31 provinces and municipals in the country.

2007 proved to be an unconventional and eventful year for the Group. Against a backdrop of a fiercely competitive environment with the adoption of centralized procurement by headquarters of the telecommunications operators, the Group's performance was adversely affected by prolonged project cycle, increased operating cost and declined revenue. Meanwhile, in view of the delay in the launching of 3G service by telecom groups, the Group had shifted its business operation focus in 2007 on the following:

- Restructuring its business operation to a "business unit-oriented" model and expanding its product mix in response to market development.

- Placing greater emphasis in the strategy of making sales to headquarters of the Group's customers in line with the trends of functionality homogenizing, model unification and interface standardization in telecom operating support system building.

- Strengthening on its internal operating system development. The Group had passed the assessment of CMMI Level 4 in August 2007 and become one of a handful (included both domestic and foreign enterprises) who passed the advanced level assessment on sophistication of software development process during the year.

The Group's effort in technique and management of research and development during the year under review had been recognized once again and was rewarded with a national award in 2007. The project conducted jointly by the Group and China Mobile, among others, on the " Integrated Mega Testing and Control Supporting System on Data Service Network of China Mobile" received 1st prize in the China Institute of Communication's Technological Advancement Award (中國通信學會科技技術進步獎一等獎). In addition, the Group was named as one of the Top 100 Technical Innovation Enterprises in Zhongguancun Science Park. Also, the "Network Resources Management and Operation Security System" project had been admitted by the Torch High Tech Industry Development Centre of the Ministry of Technology as a Science and Technology for Trade Special proceeding programme (科技興貿行動專項項目).

Management Discussion and Analysis

Software development

Under the mentoring of an internationally prestigious consultancy company, the Group has introduced iterative development, unified development, assemblies development technique to its project management and technological management practice. And the Group's efficiency in product research and development has been enhanced by raising project implementation into the Group's development administration process. Thus the risk of product research and development has been reduced.

Work implementation and management standard

After years of effort, the Group achieved remarkable improvement in Group's project management as well as in quality of human resources. The Group had passed the highest level assessment from the Ministry of Information Industry on premium standard of computer information system integration which attained the highest level in certification of computer information system integration.

CUSTOMER BASE

The Group's customers comprise four major telecommunications operators including China Mobile, covering 31 provinces in the PRC, as well as enterprises and private network customers. The Group has formed strategic partnership with various reputable multinational telecommunications conglomerates both in the PRC and abroad to provide services to end users of telecommunications services.

SALES STRATEGIES

The Group has established marketing teams in Beijing, Shanghai and Guangzhou, being responsible for formulation of overall marketing strategy, sales promotion, market analysis, identification of customers' needs, new business development, provision of technical support to the sales division and customer service.

The Group also had service representatives residing locally at Shijiazhuang, Nanchang, Fuzhou, Taiyuan, Hangzhou and Lhasa, by which the sales and service network of the Group had become more comprehensive.

PRODUCT RESEARCH AND DEVELOPMENT

The Group had exerted greater effort in research and development on fundamental platform. It had built an assemblies development model based on information flow analysis, and had launched a successful trail run in a product line and solved the problem of data accuracy faced by the industry and its organizations, thereby laying foundation for future research and development of the Group. The Group's transmission network based on assemblies platform had passed the testing by China Mobile, which gave preliminary proof to the value of the assemblies platform.

INTERNAL REFORM AND MANAGEMENT

The Group had retained the 5 functions: base assemblies research and development, purchase, finance, quality control and corporate information, and consolidated them into 2 main business supporting units.

At the same time, the Group had set up a unified engineering service department on the basis of consolidating the engineering service for the product lines, thereby establishing an on-site service system covering the whole nation.

To complement the above reform measures, the Group had also strengthened the reporting, supervision and examination functions, formulated underlying policies and enhanced the monitor capability of product lines.

AWARDS AND HONOURS

The Group had passed the assessment of CMMI Level 4 in August 2007 and become one of a handful (included both domestic and foreign enterprises) who passed the advanced level assessment on sophistication of software development process during the year.

The Group's effort in technique and management of research and development had been recognized once again and was rewarded with a national award in the reviewing year of 2007. The project conducted jointly by the Group and China Mobile, among others, on the "Integrated Mega Testing and Control Supporting System on Data Service Network of China Mobile" received 1st prize in the China Institute of Communication's Technological Advancement Award (中國通信學會科技技術進步獎一等獎). In addition, the Group was named as one of the Top 100 Technical Innovation Enterprises in Zhongguancun Science Park. Also, the "Network Resources Management and Operation Security System" project had been admitted by the Torch High Tech Industry Development Centre of the Ministry of Technology as a Science and Technology for Trade Special Proceeding Programme (科技興貿行動專項項目).

BUSINESS OUTLOOK

The Group will gear up its effort in the area of mobile communication network optimization, maintain the relationships with prestigious communication equipment manufacturers local and abroad as their business partners, and preserve its market shares in certain provinces in China. It will also prepare itself for any opportunity arisen from network upgrade in connection with the building of 3G network, and involve certain software development initiatives incidental to network upgrade.

On top of the above, the Group is also actively exploring and engaged in negotiations with respect of feasibility of expansion into other business segments which may include, inter alia, investment in the advertising industry in China, with a view to diversify the Group's business portfolio and to generate stable and solid revenue.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and the bank balance.

As at 31 December 2007, the Group had bank balances and cash of approximately RMB40,715,159 and bank deposits of approximately RMB37,003,227 as compared to the bank balances and cash of approximately RMB9,975,850 and bank deposits of approximately RMB55,685,220 as at 31 December 2006.

The Group's net current assets totalled approximately RMB94,285,023 as at 31 December 2007, against approximately RMB107,043,272 as at the end of the previous financial year. The Group's current ratio was approximately 3.86 as at 31 December 2007 as compared with 3.52 as at 31 December 2006.

GEARING RATIO

As at 31 December 2007, the Group did not have any long-term debts while its shareholders' funds amounted to approximately RMB119,386,870. In this regard, the Group holds a net cash position with nil gearing ratio (net debt to shareholders' funds) as at 31 December 2007.

CAPITAL STRUCTURE

For the year ended 31 December 2007, there was no change in the capital structure and issued share capital of the Company.

SIGNIFICANT INVESTMENTS

As at 31 December 2007, the Group did not have any significant investments (2006: Nil).

FOREIGN EXCHANGE EXPOSURE

Substantially all of the business transactions of the Group are denominated in Renminbi and Hong Kong dollars. The Group adopts a conservative financial policy. As at 31 December 2007, the Group did not have any bank liabilities, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to any material interest and exchange risks.

CHARGES ON GROUP ASSETS

As at 31 December 2007, the Group did not have any charges on its assets (2006: Nil).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any significant contingent liabilities (2006: Nil).

EMPLOYEE INFORMATION

As at 31 December 2007, the Group has 420 employees (2006: 385). The Group remunerates its employees on their performance, experience and prevailing industry practices. We 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.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Christian Emil TOGGENBURGER, aged 42, is an executive Director. Mr. Toggenburger has extensive experience in the development of restructuring concepts as well as the realization thereof for Asiatic enterprises by providing solutions for these Asiatic enterprises such as refinancing options, introduction of new investors and improvements in operations. Mr. Toggenburger is currently the President and a director of Prozessfinanz and advofin. Prozessfinanz is principally engaged in litigation financing in Switzerland and advofin is principally engaged in purchased claims management in Europe. In addition, Mr. Toggenburger was an executive director of Beauforte Investors Corporation Limited (stock code: 21) from June 2006 to June 2007 and a substantial shareholder of PYI Corporation Limited (stock code: 498).

Ms. CHAN Shui Sheung, Ivy (陳瑞常女士), aged 43, is an executive Director. Ms. chan has over 15 years experience in investment. Ms. Chan holds a Master of Business Administration degree from The University of South Australia. Ms. Chan is currently a director of Century21 Surveyors Limited and an executive director of PME Group Limited (stock code 379).

Ms. SO Wai Lam (蘇慧琳女士), aged 27, is an executive Director. Ms. So holds a bachelor degree of Science with double majors in Mathematics and Statistics from the University of British Columbia in Canada. She has over 4 years experience in the corporate finance industry. She is currently a corporate finance manager at a local corporate finance firm in Hong Kong.

Ms. WANG Feixue (王飛雪女士), aged 40, was an executive Director and the chairman of the Group and resigned on 20 February 2008. Ms. Wang has been a director and authorised legal representative of ZZNode (Beijing), since its establishment. She became a shareholder of ZZNode (Beijing) in April 2001, after Shanghai Zhizhen Telecommunications Technology Company Limited transferred its 19.8% interest in ZZNode (Beijing) to her. Ms. Wang was responsible for overseeing the overall strategic planning, formulation of corporate policies and management of the Group. Ms. Wang graduated from 國防科學技術大學 (National University of Defence Technology) with bachelor's degree in 計算機軟件專業 (computer software) in July 1990. Ms. Wang had worked for 江南計算技術研究所 (Jiangnan Institute of Computing Technology) for the period from July 1990 to December 1995 and 上海直真電訊技術有限公司北京辦事處 (Beijing Office of Shanghai Zhizhen Telecommunications Technology Co., Ltd.) as a manager for the period from 1998 to 1999. Apart from her technical knowledge and experience in the software industry, she is experienced in managing in software and electronic technology company in the PRC before joining ZZNode (Beijing) in October 1999. Ms. Wang is now studying EMBA in the School of Economics of Management, Tsinghua University (清華大學經濟管理學院).

Mr. JIN Jianlin (金建林先生), aged 40, was an executive Director, also the vice chairman and president of the Group and resigned on 20 February 2008. Mr. Jin was responsible for the strategic planning, formulation of annual corporate plans and management system of the Group. Mr. Jin graduated from 計算機工程系 (Faculty of Computer Engineering) in the Beijing University of Posts and Telecommunications (北京郵電大學) with bachelor's degree specialising in 計算機通信專業(computer communication) in July 1988. Mr. Jin completed the EMBA programme and obtained his EMBA from the School of Economics & Management, Tsinghua University (清華大學經濟管理學院) in 2005. Mr. Jin had worked for the 北京貝爾通信設備制造有限公司 (Beijing Bell Telecommunication Equipment Manufacture Co., Ltd.) as a senior engineer in telecommunications. He joined ZZNode (Beijing) in May 2001.

Biographical Details of Directors

Mr. YUAN Juan (袁雋先生), aged 39, was an executive Director and the vice president of the Group resigned on 20 February 2008. Mr. Yuan was responsible for the strategic planning, formulation of annual marketing, and product planning of the Group. Mr. Yuan graduated from 國防科學技術大學(Department of Computer Science of National University of Defence Technology) with bachelor's degree specialising in (Computer and application) in July 1990 and completed his postgraduate studies in 計算機通信專業(Computer Organisation and Architecture) in 中國科學院計算技術研究所(Institute of Computing Technology Chinese Academy of Sciences) in July 1993. He also obtained his doctorate's degree from the Peking University in July 1996. He worked at 信息化工程總體研究中心(Architectural Research Center for Information Engineering) of 電子工業部(Ministry of Electronic Industry) (later merged with 郵電部(Ministry of Posts and Telecommunications) to become the MII). Mr. Yuan joined ZZNode (Beijing) in October 1999.

Ms. HU Rong (胡榮女士), aged 49, was an executive Director and the financial controller of the Group's PRC subsidiaries and branch offices and resigned on 20 February 2008. Ms. Hu was responsible for the financial planning of the Group's PRC subsidiaries and branch offices. Ms. Hu graduated from 雲南省文化廳職工大學(University of Workers in Yunnan Province) in July 1990 and Concordia University, Wisconsin in the United States with master degree in business administration in December 2002. She had worked for Beijing Nantian Information Engineering Co., Limited (北京南天信息工程有限公司) from 1977 to 2000 in the finance department. She has over 20 years of experience in the fields of financial management. Ms. Hu joined ZZNode (Beijing) in January 2000.

NON-EXECUTIVE DIRECTOR

Mr. ZHANG Suyang (章蘇陽先生), aged 49, was a non-executive Director and resigned on 20 February 2008. Mr. Zhang joined IDG Technology Venture Investment, Inc, a wholly owned subsidiary of IDG, in 1994. His background combines extensive expertise in technology and investment. Mr. Zhang has successfully launched a series of investment projects in the areas of electronics, telecommunications and software in recent years. He had worked in Shanghai Bell Telephone Equipment and Manufacturing Co. Ltd., and was the deputy director of Shanghai Telephone Equipment Factory. Mr. Zhang obtained his bachelor of Science degree specialising in Radio and Information Engineering from 上海科學技術大學 (now known as Shanghai University) in 1982. He pursued further studies in business management from 1988 to 1990 in Germany, and he completed the executive MBA program and obtained his MBA from China Europe International Business School in April, 2000. Mr. Zhang was appointed as a director of ZZNode (Beijing) in August 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOW Shiu Ki (周肇基先生), aged 40, is an independent non-executive Director. Mr. Chow has accumulated over 20 years of experience in auditing, accounting and corporate finance areas. Mr. Chow is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Chow is the qualified accountant of Byford International Limited (Stock code: 8272) and also an independent non-executive Director of Intelli-Media Group (Holdings) Limited (stock code: 8173).

Mr. LAM Raymond Shiu Cheung (林兆昌先生), aged 42, is an independent non-executive Director. Mr. Raymond Lam has 17 years extensive experience in business development and corporate finance. Mr. Raymond Lam holds a Bachelor of Business Degree majoring in banking and finance from The Victoria University of Melbourne, Australia in 1991. He also earned a Master Degree in Applied Finance from Macquarie University of Australia in 1994. Currently, Mr. Raymond Lam is a senior manager of an investment company in Hong Kong.

Biographical Details of Directors

Mr. LAM Ka Wai, Graham (林家威先生), aged 40, is an independent non-executive Director. Mr. Graham Lam graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is an associate member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Graham Lam is currently a Managing Director & Head of Corporate Finance Department of an investment bank and has around 14 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also an independent non-executive director of Cheuk Nang (Holdings) Limited (stock code: 131), Applied Development Holdings Limited (stock code: 519), China Conservational Power Holdings Limited (stock code: 290) and Artfield Group Limited (Stock code: 1229).

Mr. HUNG Randy King Kuen, (孔敬權先生), aged 42, was an independent non-executive Director, he joined the Group in October 2004 and resigned on 20 February 2008. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. He holds a bachelor's degree of accounting and a certificate in programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong, and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institute. Mr. Hung is currently an executive director of China Shineway Pharmaceutical Group Limited (stock code: 2877). He is also an independent non-executive Director of Zhongtian International Limited (stock code: 2379) and Zhongyu Gas Holdings Limited (stock code: 8070), the shares of which are listed on the Main Board and the Growth Enterprise Market of the Stock Exchange respectively.

Mr. CHEN Xiaohong (陳小洪先生), aged 58, was an independent non-executive Director, he joined the Group in October 2004 and resigned on 20 February 2008. Mr. Chen graduated from 華中工學院(now known as Huazhong University of Science and Technology,) with bachelor's degree specialising in mechanical engineering in 1982 and master's degree specialising in 經濟管理工程專業(Economics Management Engineering) in 1984. He has worked as a researcher at the Development Research Center of the State Council of the PRC (國務院發展研究中心) since 1985.

Mr. HE Xingui (何新貴先生), aged 69, was an independent non-executive Director, he joined the Group in October 2004 and resigned on 20 February 2008. Mr. He graduated from Peking University of the PRC in 1960, and was a visiting lecturer of The Ohio State University. Mr. He worked at Department of the Seventh Mechanical Industry (第七機械工業部) (later known as Department of Astronautics (航天工業部)) and Committee of Science Technology and Industry of Defense in PLA (中國人民解放軍國防科學技術工業委員會). He is currently the dean and professor of School of Electronics Engineering and Computer Science of the Peking University and a fellow of Chinese Academy of Engineering (中國工程院院士).

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited consolidated financial statements of ZZNode Technologies Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

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 34 to the consolidated financial statements. The Group is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC.

An analysis of the Group's performance for the year by business segments is set out in note 8 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 28.

The Directors did not recommend payment of final dividend for the year ended 31 December 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, distributable reserves of the Company amounted to RMB119,386,870. Movements in the distributable reserves of the Group during the year are set out in the consolidated statement of changes in equity in page 30.

Report of the Directors

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)*	(Resigned on 20 February 2008)
Mr. JIN Jianlin	(Resigned on 20 February 2008)
Mr. YUAN Juan	(Resigned on 20 February 2008)
Ms. HU Rong	(Resigned on 20 February 2008)
Mr. Christian Emil TOGGENBURGER	(Appointed on 24 January 2008)
Ms. CHAN Shui Sheung, Ivy	(Appointed on 24 January 2008)
Ms. SO Wai Lam	(Appointed on 24 January 2008)

Non-executive Director

Mr. ZHANG Suyang	(Resigned on 20 February 2008)

Independent Non-executive Directors

Mr. HUNG Randy King Kuen	(Resigned on 20 February 2008)
Mr. CHEN Xiaohong	(Resigned on 20 February 2008)
Mr. HE Xingui	(Resigned on 20 February 2008)
Mr. CHOW Shiu Ki	(Appointed on 24 January 2008)
Mr. LAM Raymond Shiu Cheung	(Appointed on 24 January 2008)
Mr. LAM Ka Wai, Graham	(Appointed on 29 January 2008)

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 considers all its independent non-executive Directors to be independent.

In accordance with Article 86 para (3) of the Company's Articles of Association, Mr. Christian Emil Toggenburger, Ms. Chan Shui Sheung, Ivy, Ms. So Wai Lam, Mr. Chow Shiu Ki, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai, Graham will hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the former executive Directors, namely, Ms. Wang Feixue, Mr. Jin Jianlin, Mr. Yuan Juan and Ms. Hu Rong, 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.

The former non-executive Director, Mr. Zhang Suyang, was appointed for an initial term of not more than two years and will be renewable automatically for successive term of two years until terminated by not less than one month's notice in writing served by either party or the other.

Each of the former independent non-executive Directors, namely, Mr. Hung Randy King Kuen, Mr. Chen Xiaohong and Mr. He Xingui has entered into a letter of appointment with the Company for a term of three years and subject to termination of either party by giving not less than one month's prior notice in writing.

For the existing Directors, namely, Mr. Christian Emil Toggenburger, Ms. Chan Shui Sheung, Ivy, Ms. So Wai Lam, Mr. Chow Shiu Ki, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai, Graham who appointed in January 2008, none of them entered into any written service contract with the Company but subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Save as disclosed above, no Director proposed for re-elections at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

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 and (b) the Share Incentive Scheme, 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.

Report of the Directors

Details of share options outstanding as at 31 December 2007 under (a) the Share Option Scheme and (b) the Share Incentive Scheme are as follows:

(a) Share Option Scheme

List of Grantee	Balance as at 1 January 2007	Granted during the year	Exercised during the year	Forfeited during the year	Balance as at 31 December 2007
Name of directors					
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
	10,000,000	14,900,000	–	–	24,900,000

(b) Share Incentive Scheme

	Option category	Balance as at 1 January 2007	Granted during the year	Exercised during the year	Forfeited during the year	Balance as at 31 December 2007
Employees	2004	7,331,400	–	(880,000)	(1,026,000)	5,425,400
Consultants	2004	990,000	–	–	–	990,000
Consultants	2005	1,000,000	–	(24,000)	–	976,000
Employees	2006	1,080,000	–	–	(108,000)	972,000
		10,401,400	–	(904,000)	(1,134,000)	8,363,400

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

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 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	Personal (long position)	7,950,000	2.01%
Mr. JIN Jianlin	Corporate (long position) *(Note 1)*	15,749,040	3.99%
	Personal (long position)	7,950,000	2.01%
	Corporate (short position) *(Note 2)*	6,956,440	1.76%
Ms. HU Rong	Corporate (long position) *(Note 3)*	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:

1. 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.

2. 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.

3. 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 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 31 December 2007, so far as directors of the Company are aware of and having made due enquiries 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
Atlantis Investment Management Ltd.	Corporate	33,008,000	8.36%
Betterment Enterprises Limited	Corporate *(Note)*	198,604,108	50.27%
Mr. Christian Emil TOGGENBURGER	Personal (long position) *(Note)*	198,604,108	50.27%

Note: Betterment Enterprises Limited is wholly owned by Mr. Christian Emll Toggenburger ("Mr. Toggenburger"), therefore Mr. Toggenburger deem to be interested in 198,604,108 shares.

Save as disclosed above, as at 31 December 2007, 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 2007, 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	10%
Five largest suppliers combined	31.7%

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

	Percentage of sales
The largest customer	49.9%
Five largest customers combined	80.9%

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

During the year, the Company entered into a disposal agreement with Bright Pearl Holdings Limited, a shareholder of the Company, to dispose its entire interest in Modern Age Investment Limited and its subsidiary, Beijing Zhizhen Node Technology Development Co., Ltd. at a consideration of HK$110,000,000.

The disposal was approved in the extraordinary general meeting of the Company held on 10 January 2008 and completed on 21 January 2008. More details of the disposal are disclosed in note 32 to the consolidated financial statements.

POST BALANCE SHEET EVENT

An ordinary resolution in connection with the Disposal was passed at the extraordinary general meeting of the Company held on 10 January 2008. The Disposal was completed on 21 January 2008.

Subsequent to year end, as part of the "Very Substantial Disposal, Connected Transaction and Special Deal in relation to the Disposal of Modern Age Investments Limited and Continuing Connection Transaction", the details of which were included in the circular dated 21 December 2007, all of outstanding options of the Company were either exercised or cancelled on 19 February 2008.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2007.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 21 to 25 of this annual report for details of its compliance with the Code on Corporate Governance Practices.

Report of the Directors

AUDITOR

The financial statements for the year ended 31 December 2007 were audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment as the Company's auditor. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor to the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chan Shui Sheung, Ivy
Executive Director

Hong Kong, 23 April 2008

Corporate Governance Report

INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance (the "CG Code") as set out in Appendix 14 of the Listing Rules and deviations, if any.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the provisions of the CG Code. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The Directors acknowledge their responsibility for preparing the Company's accounts. The board of Directors has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

While after the year ended 31 December 2007 and up to the date of this report, there are deviations according to the CG Code as stated in paragraph headed "Chairman and Chief Executive Officer" and "Non-executive Director".

DIRECTORS' SECURITIES TRANSACTIONS

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.

THE BOARD OF DIRECTORS

During the year, the Board of Directors (the "Board") comprises eight Directors, of whom four are executive Directors, one is non-executive Director and three are independent non-executive Directors while all of them resigned on 20 February 2008. The names of the directors and their respective biographies are set out on pages 10 to 12 of this annual report.

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

The Company has set out the respective functions and responsibilities reserved to the board of directors and those delegated to management. The Board delegates day-to-day operations of the Group to executive directors and senior management while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies; approval of business plans; evaluating the performance of the Company and oversight of management. Decisions of the Board are communicated to the management through executive Directors who have attended at Board meetings.

Corporate Governance Report

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive Directors, of whom, Mr. Hung Randy King Kuen is a certified public accountant in Hong Kong and the United States. For the new board members of the Company, two of the independent non-executive Directors, namely Mr. Chow Shiu Ki ("Mr. Chow") and Mr. Lam Ka Wai, Graham ("Mr. Graham Lam") have strong accounting background. Mr. Chow is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Graham Lam is an associate member of HKICPA and a member of the American Institute of Certified Public Accountants.

To the best knowledge of the Company, there is no financial business, family or other material/relevant relationship among the Directors, especially between the officer of the Company.

In the financial year ended 31 December 2007, seven Board meetings were held and the following is an attendance record of the meetings by each Director:

Executive Directors	**Attendance**
Ms. Wang Feixue *(Chairman)*	7/7
Mr. Jin Jianlin	7/7
Mr. Yuan Juan	7/7
Ms. Hu Rong	7/7
Non-executive Director	
Mr. Zhang Suyang	7/7
Independent Non-executive Directors	
Mr. Hung Randy King Kuen	7/7
Mr. Chen Xiaohong	7/7
Mr. He Xingui	7/7

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual.

During the year ended 31 December 2007, Ms. Wang Feixue is the Chairman of the Company and is mainly responsible for the management of the Board. Mr. Jin Jianlin is the Chief Executive Officer of the Company and is responsible for the day-to-day management of the business.

While after the resignation of chairman and chief executive officer of the Company on 20 February 2008, the Company does not have any officer with the title "chairman" and "chief executive officer". Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

NON-EXECUTIVE DIRECTOR

According to the code provision A.4.1 of the CG Code, all non-executive directors should be appointed for a specific term of service.

The former non-executive Director, Mr. Zhang Suyang, was appointed for an initial term of not more than two years and will be renewable automatically for successive term of two years until terminated by not less than one month's notice in writing served by either party or the other.

Each of the former independent non-executive Directors, namely, Mr. Hung Randy King kuen, Mr. Chen Xiaohong and Mr. He Xingui has entered into a letter of appointment with the Company for a term of three years and subject to termination of either party by giving not less than one month's prior notice in writing.

While after the resignation of the non-executive Director and independent non-executive Directors on 20 February 2008, three independent non-executive Directors were appointed in January 2008, namely Mr. Chow Shiu Ki, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai, Graham, are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

REMUNERATION COMMITTEE

The remuneration committee was established in 2005 which is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remunerations of executive Directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme and other compensation-related issues. The remuneration committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations.

During the year ended 31 December 2007, the Chairman of the committee is Mr. Hung Randy King Kuen, (an independent non-executive Director) and other members include Mr. Yuan Juan (an executive Director) and Mr. He Xingui (an independent non-executive Director).

The above mentioned members of the remuneration committee were resigned on 20 February 2008 and new members were appointed in place of the resigned members. The new members are Mr. Lam Ka Wai, Graham, Mr. Lam Raymond Shiu Cheung and Ms. Chan Shui Sheung, Ivy. Mr. Lam Ka Wai, Graham, was nominated as Chairman of the remuneration committee.

The remuneration committee convened one meeting during the year to review the remuneration package of the Directors and Senior Staff of the Company. The remuneration committee is provided with resources enabling it to discharge its duties such as the access to professional advice if and when necessary. Members and their attendance are as follows:

Member Name	**Attendance**
Mr. Hung Randy King Kuen *(Chairman)*	1/1
Mr. Yuan Juan	1/1
Mr. He Xingui	1/1

Corporate Governance Report

NOMINATION OF DIRECTORS

The Board is empowered under the Company's Articles of Association to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regards to the balance of skills and experience appropriate to the Group's business.

There was no nomination of directors during the year ended 31 December 2007 while the nomination committee of the Company has been established on 20 February 2008 according to the CG Code. Mr. Chow Shiu Ki, Ms. Chan Shui Sheung, Ivy and Mr. Lam Ka Wai, Graham have been appointed as the members of the nomination committee of the Company. Mr. Chow Shiu Ki was appointed as chairman of the nomination committee.

The nomination committee was discharged the following duties:

– review the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis and make recommendations to the Board regarding any proposed changes;

– identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of, individuals nominated for directorships;

– assess the independence of independent non-executive directors; and

– make recommendations to the board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

AUDIT COMMITTEE

The primary responsibles of the audit committee include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the audit committee on which complies with the provisions of the CG Code.

During the year ended 31 December 2007, the audit committee members comprise of Mr. Hung Randy King Kuen, Mr. Chen Xiaohong and Mr. He Xingui, all of the members are independent non-executive Directors. Mr. Hung Randy King Kuen, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the audit committee. No member of this committee is a member of the former or external auditors of the Company. New members were appointed due to the resignation of the above-mentioned members on 20 February 2008. The new members are Mr. Lam Ka Wai, Graham, Mr. Lam Raymond Shiu Cheung and Mr. Chow Shiu Ki. Mr. Lam Ka Wai, Graham was also appointed as chairman of the audit committee.

The audit committee convened two meetings during the year and the individual attendance of each audit committee member is as follows:

Members	**Attendance**
Mr. Hung Randy King Kuen *(Chairman)*	2/2
Mr. Chen Xiaohong	2/2
Mr. He Xingui	2/2

The committee formally met two times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditors as and when necessary, to consider the external auditors' proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgemental areas, accounting principles and practice adopted by the Group; review the external auditors' management letter and management's response; and review the Group's adherence to the CG Code.

The audit committee recommended the Board to reappoint Deloitte Touche Tohmatsu as external auditors for the fiscal year 2008 and recommended to approve the annual report.

AUDITOR'S REMUNERATION

Annually since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to RMB976,390 (2006: RMB974,559).

INTERNAL CONTROLS

The Board is responsible for maintaining a sound and effective internal control system for the Company. The system includes a management structure with terms of reference to protect its assets from misappropriation, and ensures keeping appropriate accounting records so as to provide reliable financial information for internal use or for dissemination, as well as ensuring compliance with the laws and regulations. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Company's management system and risks existing in the course of arriving at the Company's objectives.

The Directors, through the audit committee and the engagement of an independent accounting firm, have conducted an annual review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2007. The review covers all material controls including financial, operational and compliance controls and risk management functions. The audit committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

INVESTOR RELATIONS

To foster effective communications, the Company provided all necessary information to the shareholders in its annual report, interim report. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries. Directors of the Company make efforts to attend the annual general meetings so that they may answer any questions from the Company's shareholders.

The Directors, the company secretary or other appropriate members of senior management will also respond to inquires from shareholders and investors promptly.

For and on behalf of the Board

Chan Shui Sheung, Ivy
Executive Director

Hong Kong, 23 April 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF ZZNODE TECHNOLOGIES COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ZZNode Technologies Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 70, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 RMB	2006 RMB
Revenue	7	**85,117,959**	125,386,040
Cost of sales and services		**(64,765,739)**	(83,272,759)
Gross profit		**20,352,220**	42,113,281
Other income	9	**5,949,689**	9,448,897
Amortisation of intangible assets		**(5,120,651)**	(3,498,032)
Research and development expenditure		**(6,781,326)**	(9,016,988)
Selling and marketing expenses		**(5,375,655)**	(5,996,300)
Administrative expenses		**(29,433,605)**	(20,019,831)
Share of result of an associate		**235,217**	(1,582,693)
Gain on disposal of available-for-sale investment		**–**	1,000,000
(Loss) profit before tax		**(20,174,111)**	12,448,334
Income tax credit (expense)	10	**716,934**	(90,745)
(Loss) profit for the year	11	**(19,457,177)**	12,357,589
Dividend	14	**–**	2,813,160
(Loss) earnings per share – basic (RMB cents)	15	**(4.93)**	3.09

Consolidated Balance Sheet

At 31 December 2007

	NOTES	**2007** **RMB**	2006 RMB
Non-current Assets			
Property, plant and equipment	16	**16,630,158**	15,577,092
Intangible assets	17	**2,281,490**	8,777,141
Interest in an associate	18	**6,190,199**	5,954,982
		25,101,847	30,309,215
Current Assets			
Inventories	19	**4,501,106**	3,888,655
Amounts due from customers for integration solutions		**12,341,882**	7,944,315
Trade receivables	20	**27,413,973**	49,320,233
Note receivables	20	**–**	16,963,953
Prepayments, deposits and other receivables		**5,244,273**	4,738,706
Amount due from a related party	21	**–**	950,000
Bank deposits	22	**37,003,227**	55,685,220
Bank balances and cash	23	**40,715,159**	9,975,850
		127,219,620	149,466,932
Current Liabilities			
Trade payables	24	**12,066,501**	14,032,190
Note payables	24	**3,519,934**	640,000
Advances from customers, accrued charges and other payables		**16,792,091**	9,849,417
Tax liabilities		**556,071**	938,100
Note receivables discounted with recourse	25	**–**	16,963,953
		32,934,597	42,423,660
Net Current Assets		**94,285,023**	107,043,272
		119,386,870	137,352,487
Capital and Reserves			
Share capital	26	**41,897,665**	41,897,665
Reserves		**77,489,205**	94,737,888
Total Equity		**119,386,870**	136,635,553
Non-current Liability			
Deferred tax liabilities	27	**–**	716,934
		119,386,870	137,352,487

The financial statements on pages 28 to 70 were approved and authorised for issue by the Board of Directors on 23 April 2008 and are signed on its behalf by:

Chan Shui Sheung, Ivy
DIRECTOR

So Wai Lam
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital RMB	Share premium RMB	Special reserve RMB (note a)	Statutory surplus reserve RMB (note b)	Statutory public welfare fund RMB (note c)	Discretionary reserve RMB (note d)	Translation reserve RMB	Capital redemption reserve RMB (note e)	Share option reserve RMB	Contribution from shareholders RMB	Retained earnings RMB	Total RMB
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
Profit for the year and total recognised income and expense for the year	–	–	–	–	–	–	–	–	–	–	12,357,589	12,357,589
Repurchase of shares	(502,335)	(636,000)	–	–	–	–	–	–	–	–	(871,005)	(2,009,340)
Reclassification of capital redemption reserve	–	–	–	–	–	–	–	502,335	–	–	(502,335)	–
Reclassification of statutory surplus reserve	–	–	–	3,470,799	(3,470,799)	–	–	–	–	–	–	–
Reclassification of translation reserve	–	–	–	–	–	–	(58,699)	–	–	–	58,699	–
Recognition of equity-settled	–	–	–	–	–	–	–	–	–	–	–	–
share-based payments	–	–	–	–	–	–	–	–	1,818,368	436,533	–	2,254,901
Dividend paid	–	–	–	–	–	–	–	–	–	–	(2,813,160)	(2,813,160)
At 31 December 2006 and 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
Loss for the year and total recognised income and expense for the year	–	–	–	–	–	–	–	–	–	–	(19,457,177)	(19,457,177)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	2,229,991	(21,497)	–	2,208,494
At 31 December 2007	41,897,665	–	15,535,611	9,610,472	–	495,820	–	502,335	4,048,359	1,927,198	45,369,410	119,386,870

Notes:

(a) Special reserve represents the difference between the nominal value of the ordinary shares issued by the Company and Beijing Zhizhen Node Technology Development Co., Ltd. 北京直真節點技術有限公司 ("ZZNode (Beijing)") and the aggregate of share capital and share premium or net assets of the subsidiaries acquired by the Company and ZZNode Beijing through the exchange of shares.

(b) As stipulated by the relevant laws and regulations in the PRC, the Company's subsidiaries in the PRC are required to appropriate 10% of their profit after tax each year calculated in accordance with the accounting principles and financial regulations applicable to companies established in the PRC ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the registered capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into registered capital and expansion of production and operation. For the capitalisation of statutory surplus reserve into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

(c) Pursuant to the PRC Company Law, certain of the Company's subsidiaries in the PRC shall make an allocation from their profit after tax under PRC GAAP at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare.

With the relevant regulations effect from 2006, the Company's subsidiaries are no longer required to make such allocation and the outstanding statutory public welfare fund was reclassified to statutory surplus reserve.

(d) Discretionary reserve is a distributable reserve and is appropriated from retained earnings in accordance with shareholders' approval. The discretionary reserve can be used for capitalisation of share capital.

(e) Capital redemption reserve represents a non-distributable reserve created in accordance with Section 37.4(a) of the Cayman Islands Companies Law when the Company repurchases its own shares out of retained earnings. The reserve is created by transferring from the retained earnings an amount equivalent to the nominal value of the share repurchased to the capital redemption reserve.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB	2006 RMB
Operating activities		
(Loss) profit before tax	**(20,174,111)**	12,448,334
Adjustments for:		
Interest income	**(1,332,732)**	(1,070,344)
Share of result of an associate	**(235,217)**	1,582,693
Depreciation of property, plant and equipment	**2,065,125**	2,172,867
Amortisation of intangible assets	**5,120,651**	3,498,032
Loss on disposal of property, plant and equipment	**184,156**	35,024
Gain on disposal of available-for-sale investment	**–**	(1,000,000)
Loss on write-off of intangible assets	**375,000**	–
Impairment loss (reversal of impairment loss) on trade receivables	**9,198,341**	(514,414)
Share-based payment expenses	**2,229,991**	2,254,901
Reverse from forfeited share-based payment during the vesting period	**(21,497)**	–
Operating cash flows before movements in working capital	**(2,590,293)**	19,407,093
Increase in inventories	**(612,451)**	(1,371,372)
Increase in amounts due from customers for integration solutions	**(4,397,567)**	(3,767,696)
Decrease (increase) in trade receivables	**12,707,919**	(12,132,512)
Decrease (increase) in note receivables	**–**	(16,963,953)
(Increase) decrease in prepayments, deposits and other receivables	**(505,567)**	802,212
Decrease (increase) in amount due from a related party	**950,000**	(950,000)
(Decrease) increase in trade payables	**(965,689)**	578,819
Increase (decrease) in note payables	**2,879,934**	(5,660,054)
Increase (decrease) in advances from customers, accrued charges and other payables	**6,942,674**	(1,251,924)
Cash generated from (used in) operations	**14,408,960**	(21,309,387)
PRC enterprise income tax paid	**(382,029)**	(462,466)
Net cash generated from (used in) operating activities	**14,026,931**	(21,771,853)
Investing activities		
Interest received	**1,332,732**	1,070,344
Decrease in non-current bank deposits	**–**	2,438,280
Purchase of property, plant and equipment	**(3,350,347)**	(1,041,185)
Purchase of intangible assets	**–**	(3,882,534)
Decrease (increase) in bank deposits	**18,681,993**	(30,633,170)
Proceeds from disposal of available-for-sale investment	**–**	5,600,000
Proceeds from disposal of property, plant and equipment	**48,000**	21,479
Net cash generated from (used in) investing activities	**16,712,378**	(26,426,786)
Financing activities		
Proceeds from note receivables discounted	**–**	16,963,953
Dividend paid	**–**	(2,813,160)
Repurchase of shares	**–**	(2,009,340)
Net cash (used in) generated from financing activities	**–**	12,141,453
Net increase (decrease) in cash and cash equivalents	**30,739,309**	(36,057,186)
Cash and cash equivalents at beginning of the year	**9,975,850**	46,033,036
Cash and cash equivalents at end of the year, representing bank balances and cash	**40,715,159**	9,975,850

Notes To The Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 January 2004. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P. O. Box 2681 GT, Granted Cayman KYI-1111, Cayman Islands and Suites 1205-1207, 12th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong, respectively.

The consolidated financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34.

Pursuant to a disposal agreement dated 24 October 2007, the Company agreed to sell (the "Disposal") and Bright Pearl Holdings Limited ("Bright Pearl"), a shareholder of the Company, agreed to purchase the entire interest in Modern Age Investments Limited ("Modern Age") and its subsidiary, Beijing Zhizhen Node Technology Development Co., Ltd. 北京直真節點技術開發有限公司 ("ZZNode (Beijing)") (the "Disposal Group") for a cash consideration of HK$110,000,000. The Disposal was completed on 21 January 2008.

After the Disposal, the Group will continue its existing business on the software development and telecommunications service through its remaining operating subsidiary, Shanghai Zhizhen Node Technology Development Co., Ltd. 上海直真節點技術開發有限公司 ("ZZNode (Shanghai)"). In addition, the Group may also consider to use the proceeds from the Disposal to diversify the business of the Group with an objective to broaden its income source should suitable investment or business opportunities arise. Details of the Disposal were included in the circular "Very Substantial Disposal, Connected Transaction and Special Deal in relation to the Disposal of Modern Age Investments Limited and Continuing Connected Transaction" dated 21 December 2007.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, 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 (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued at the date of this report but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Income from integration solution is recognised based on the percentage of completion method.

Income from sales of third party software and hardware is recognised when goods are delivered or accepted by the customers, whenever is later.

Maintenance and training income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods and services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	5%
Leasehold improvements	Over the term of the leases
Furniture and fixtures	20%
Computers and equipment	20%
Motor vehicles	12.5%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Integration solution contracts

Where the outcome of an integration solution contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work are included to the extent that they have been agreed with the customer.

Where the outcome of an integration solution contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for integration solutions. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for integration solutions. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as leasee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Government grants

Government grants are recognised as income over the years necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

Retirement benefit costs

Payments to the state-managed retirement benefits schemes are charged as expenses when the employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less any subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The accounting policy adopted in respect of loans and receivables is set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, note receivables, other receivables, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Impairment of loans and receivables *(Continued)*

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Loans and receivables (such as trade receivables, note receivables and other receivables) that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the loans and receivables (including trade receivables, note receivables and other receivables) is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or note receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

An impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Financial liabilities

Financial liabilities (including trade payables, note payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to reacquire the Company's own equity instruments is deducted from equity. No gain or loss is recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share option reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

Share options granted by the shareholders of the Company to employees of the Group are also accounted for as equity-settled share-based payment transactions. The related expenditure is determined by reference to the fair value of share options granted at the grant date and charged on a straight-line basis over the vesting period with a corresponding amount credited to reserve as contribution from shareholders.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade receivables

When there is objective evidence of an impairment loss, the amount of the impairment loss is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. For the year ended 31 December 2007, impairment losses made by the Group on trade receivables amounted to RMB9,198,341 (2006: Reversal of impairment loss of RMB514,414).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital structure to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists principally of equity comprising share capital and reserves.

Management of the Group reviews the capital structure regularly, taking into account the cost and risk associated with the capital.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007	2006
	RMB	*RMB*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**106,869,019**	136,470,025
Financial liabilities		
Liabilities measured at amortised cost	**27,051,022**	40,774,894

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and polices

The Group's major financial instruments include trade receivables, note receivables, other receivables, bank deposits, bank balances and cash, trade payables, note payables, other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is mainly arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and note receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is reduced.

The Group has its credit risk concentrated in a few customers. As at 31 December 2007, approximately 63% (2006: 62%) of the Group's trade receivables are receivables from its major customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Market risk

The Group's activities expose it primarily to the financial risks of interest rate risk and foreign currency risk. Market risk exposures are further measured by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing marketing rate on bank deposits and bank balances and cash (see notes 22 and 23 for details).

Interest rate sensitivity

At the balance sheet date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 would decrease/increase by approximately RMB78,000 (2006: profit for the year increase/decrease RMB66,000).

Foreign currency risk

Certain bank balances of the Group are denominated in Hong Kong dollar and United States dollar which is a foreign currency other than the functional currency of the relevant group entities, which expose the Group to foreign currency risk. Details of which are disclosed in note 23. The Group has not used any financial instruments to hedge against currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Financial risk management objectives and polices *(Continued)*

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 5% change in foreign currency rates. The sensitivity analysis represents the bank balances and cash where the denomination of the bank balances and cash are in Hong Kong dollar and United States dollar, the major foreign currency risk. A negative number below indicates an increase in loss (or decrease in profit) for the year where Renminbi strengthens against Hong Kong dollar and United States dollar. For a 5% weakening of the Renminbi against the relevant currency, there would be an equal and opposite impact on the loss/profit for the year.

	2007	2006
	RMB'000	*RMB'000*
Hong Kong dollar		
Loss for the year	**(598)**	–
Profit for the year	**–**	(44)
United States dollar		
Loss for the year	**(4)**	–
Profit for the year	**–**	(264)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group's financial liabilities (including trade payables, note payables and other payables) are all due within twelve months from the relevant balance sheet dates.

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding carrying amounts.

7. REVENUE

Revenue represents the amounts received and receivable for sales of hardware and software and service income from provision of system integration, maintenance, training and other services. An analysis of the Group's revenue for the year is as follows:

	2007	2006
	RMB	*RMB*
Sales of self-developed software	**36,628,089**	36,983,360
Sales of third party software and hardware	**33,129,936**	73,299,551
System integration services	**803,240**	1,188,000
Maintenance, training and other services	**14,556,694**	13,915,129
	85,117,959	125,386,040

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC. Sales of self-developed software and third party software and hardware are delivered mainly as part of the system integration solutions provided by the Group.

Segment information about these businesses is presented below:

For the year ended 31 December 2007

	Sales of self-developed software	**Sales of third party software and hardware**	**System integration services**	**Maintenance, training and other services**	**Consolidated**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
REVENUE					
External sales	36,628,089	33,129,936	803,240	14,556,694	85,117,959
RESULT					
Segment result	(780,821)	3,247,463	277,179	10,454,135	13,197,956
Unallocated corporate expenses					(34,968,117)
Unallocated other income					1,360,833
Share of result of an associate					235,217
Loss before tax					(20,174,111)
Income tax credit					716,934
Loss for the year					(19,457,177)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

At 31 December 2007

BALANCE SHEET

	Sales of self-developed software	Sales of third party software and hardware	System integration services	Maintenance, training and other services	Consolidated
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
ASSETS					
Segment assets	**22,989,426**	**20,808,834**	**228,790**	**5,427,298**	**49,454,348**
Unallocated corporate assets					**96,676,920**
Interest in an associate					**6,190,199**
Consolidated total assets					**152,321,467**
LIABILITIES					
Segment liabilities	**–**	**17,394,005**	**–**	**–**	**17,394,005**
Unallocated corporate liabilities					**15,540,592**
Consolidated total liabilities					**32,934,597**

OTHER INFORMATION

	Sales of self-developed software	Sales of third party software and hardware	System integration services	Maintenance, training and other services	Consolidated
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Amortisation of intangible assets	5,120,651	–	–	–	5,120,651
Loss on write-off of intangible assets	375,000	–	–	–	375,000
Impairment loss on trade receivables	9,918,341	–	–	–	9,918,341

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

For the year ended 31 December 2006

	Sales of self-developed software *RMB*	Sales of third party software and hardware *RMB*	System integration services *RMB*	Maintenance, training and other services *RMB*	Consolidated *RMB*
REVENUE					
External sales	36,983,360	73,299,551	1,188,000	13,915,129	125,386,040
RESULT					
Segment result	17,711,545	10,032,736	423,327	10,217,035	38,384,643
Unallocated corporate expenses					(26,435,029)
Unallocated other income					1,081,413
Share of result of an associate					(1,582,693)
Gain on disposal of available-for-sale investment					1,000,000
Profit before tax					12,448,334
Income tax expense					(90,745)
Profit for the year					12,357,589

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

Business segments *(Continued)*

At 31 December 2006

BALANCE SHEET

	Sales of self-developed software	Sales of third party software and hardware	System integration services	Maintenance, training and other services	Consolidated
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
ASSETS					
Segment assets	52,983,388	28,347,170	394,833	6,324,642	88,050,033
Unallocated corporate assets					85,771,132
Interest in an associate					5,954,982
Consolidated total assets					179,776,147
LIABILITIES					
Segment liabilities	616,933	14,683,625	–	82,298	15,382,856
Unallocated corporate liabilities					27,757,738
Consolidated total liabilities					43,140,594

OTHER INFORMATION

	Sales of self-developed software	Sales of third party software and hardware	System integration services	Maintenance, training and other services	Consolidated
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Amortisation of intangible assets	3,498,032	–	–	–	3,498,032
Reversal of impairment loss on trade receivables	(448,736)	(65,678)	–	–	(514,414)

Geographical segments

As all the operations, assets and liabilities are situated in the PRC, no geographical segment has been prepared.

9. OTHER INCOME

	2007	2006
	RMB	*RMB*
Value-added tax refund income (note a)	**4,588,856**	7,596,650
Interest income	**1,332,732**	1,070,344
Government grant (note b)	**–**	770,834
Others	**28,101**	11,069
	5,949,689	9,448,897

Notes:

(a) In accordance with the Notice on Certain Issues of Tax Policies to Encourage the Development of Software and Integrated Circuits Industries (關于鼓勵軟件生產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 sales of self-developed software products, an amount of 14% value-added tax on such income for the period from 24 June 2000 to 31 December 2010. On 24 January 2000, the Beijing Municipal Science and Technology Commission issued a Software Enterprise Verification Certificate (軟件企業認定證書) to ZZNode (Beijing), and on 20 February 2002, the Shanghai Information Office issued a Software Enterprise Verification Certificate (軟件企業認定證書) to ZZNode (Shanghai). Both ZZNode (Beijing) and ZZNode (Shanghai) are therefore entitled to receive refund of 14% of value-added tax paid from sales of self-developed software products after the tax refund notice (稅收收入退款書) has been approved. This tax refund was recognised as other income in the period upon the relevant conditions were fulfilled.

(b) No government grant was received for the year ended 31 December 2007. In 2006 the Group received government grants of RMB657,834 from 北京市昌平區人民政府 in respect of its contribution in terms of tax paid to the local district. There was no specific condition attached to the grants and, therefore, the Group recognised the grants upon receipt of the notice. In addition, the Group received government grants of RMB113,000 from 北京市高新技術成果轉化服務中心 in respect of its software development in the PRC. The amount was recognised as other income as the conditions attached to the grants have been fulfilled.

10. INCOME TAX CREDIT (EXPENSE)

	2007	2006
	RMB	*RMB*
The credit (charge) comprises:		
PRC Enterprise Income Tax	**–**	–
Deferred tax (note 27)	**716,934**	(90,745)
	716,934	(90,745)

The statutory tax rate for both ZZNode (Beijing) and ZZNode (Shanghai) is 15%. However, they receive preferential tax treatment as explained below:

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 [2007] 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》.

ZZNode (Shanghai) is also recognised as an advanced technology and software enterprise according to the Shanghai State Tax Notice 滬國稅浦政 [2002] No. 70 of (Circular of the Ministry of Finance, the State Administration of Taxation and General Administration of Customs on the Tax Policies for Further Encouraging the Development of Software and Integrated Circuit 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》approved by the State Tax Bureau and Local Tax Bureau of Pudong New District of Shanghai Municipality. It is exempted from the PRC Enterprise Income Tax for the two years ended 31 December 2003 and entitled to a 50% tax reduction for the three years ended 31 December 2006. Therefore, ZZNode (Shanghai) is subject to PRC Enterprise Income Tax at 15% this year.

No provision for PRC Enterprise Income Tax was made for both 2007 and 2006 as the Company's subsidiaries in the PRC incurred a tax loss.

No provision for Hong Kong profits tax was made in the consolidated income statement for both 2007 and 2006 as the Group did not have any assessable profit arising in Hong Kong for both years.

10. INCOME TAX CREDIT (EXPENSE) *(CONTINUED)*

Income tax credit (expense) for the year can be reconciled to the (loss) profit before tax per the consolidated income statement as follows:

	2007	2006
	RMB	*RMB*
(Loss) profit before tax	**(20,174,111)**	12,448,334
Tax at the domestic income tax rate of 15% *(Note a)*	**3,026,117**	(1,867,250)
Tax effect of share of result of an associate	**35,283**	(237,404)
Tax effect of expenses not deductible for tax purpose	**(2,151,942)**	(1,749,006)
Tax effect of income not taxable for tax purpose	**709,606**	1,139,498
Tax effect of expenses with additional tax preferential deductions *(Note b)*	**488,359**	2,210,330
Tax effect of change in tax rate due to change in applicable tax rate	**(358,467)**	–
Tax effect of tax losses not recognised	**(89,153)**	–
Tax effect of deferred tax assets not recognised	**(942,869)**	–
Tax effect of income not taxable under tax holidays	**–**	373,757
Utilisation of tax losses previously not recognised	**–**	39,330
Income tax credit (expense) for the year	**716,934**	(90,745)

Note: *(a)* Being the statutory tax rate of ZZNode (Beijing) and ZZNode (Shanghai).

(b) According to the relevant tax rules in the PRC, the expenses incurred by enterprises in relation to the research and development of new products and technologies are entitled to an additional 50% deduction on these expenses as an incentive for the enterprises to be new products.

Details of movements in the deferred tax liabilities were set out in note 27.

Reform of the PRC Enterprise Income Tax Law

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations would impose a single tax rate of 25% for all the enterprises from 1 January 2008. However, advance technology and software enterprises still enjoy a preferential tax rate of 15% under the New EIT Law and therefore the directors of the Company are of the opinion that, subject to the approval from the relevant tax bureau, ZZNode (Beijing) and ZZNode (Shanghai) will be entitled to PRC Enterprise Income Tax at 15% for the year ending 31 December 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

11. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging (crediting):

	2007	2006
	RMB	*RMB*
Directors' emoluments *(Note 12)*	**3,839,853**	4,130,467
Other staff costs	**26,169,738**	23,098,991
Retirement benefits scheme contributions excluding directors' emoluments	**2,307,961**	2,599,475
Total staff costs	**32,317,552**	29,828,933
Auditor's remuneration	**976,390**	974,559
Impairment loss (reversal of impairment loss) on trade receivables	**9,198,341**	(514,414)
Share-based payment expenses	**2,208,494**	2,254,901
Depreciation of property, plant and equipment	**2,065,125**	2,172,867
Loss on disposal of property, plant and equipment	**184,156**	35,024
Loss on write-off of intangible assets	**375,000**	–
Net exchange loss	**31,505**	404,235
Operating lease rentals in respect of rented premises	**2,811,909**	3,400,204
Research and development expenditure	**6,781,327**	12,399,522
Less: amount capitalised	**–**	(3,382,534)
	6,781,327	9,016,988

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight directors were as follows:

For the year ended 31 December 2007:

		Other emoluments			
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Share-based payments**	**Total emoluments**
	RMB	***RMB***	***RMB***	***RMB***	***RMB***
Wang Feixue	–	396,317	21,164	698,690	1,116,171
Jin Jianlin	–	608,960	19,064	698,690	1,326,714
Yuan Juan	–	296,653	21,164	530,651	848,468
Hu Rong	–	149,718	10,340	88,442	248,500
Zhang Suyang	–	–	–	–	–
Hung Randy King Kuen	100,000	–	–	–	100,000
Chen Xiaohong	100,000	–	–	–	100,000
He Xingui	100,000	–	–	–	100,000
Total	300,000	1,451,648	71,732	2,016,473	3,839,853

For the year ended 31 December 2006:

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total emoluments
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Wang Feixue	–	521,000	19,016	727,348	1,267,364
Jin Jianlin	–	761,760	17,301	727,348	1,506,409
Yuan Juan	–	400,000	19,016	272,756	691,772
Hu Rong	–	254,520	19,016	90,916	364,452
Zhang Suyang	–	–	–	–	–
Hung Randy King Kuen	100,470	–	–	–	100,470
Chen Xiaohong	100,000	–	–	–	100,000
He Xingui	100,000	–	–	–	100,000
Total	300,470	1,937,280	74,349	1,818,368	4,130,467

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2006: four) were directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining one (2006: one) individual were as follows:

	2007	2006
	RMB	*RMB*
Salaries and other benefits	**352,501**	193,011
Retirement benefits scheme contributions	**42,329**	19,016
Performance-related incentive payments	**–**	40,000
Share based payments	**–**	98,493
	394,830	350,520

During the year, no emolument was paid by the Group to the directors or the highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

14. DIVIDEND

No dividend was declared and paid during the year. The directors do not recommend payment of dividend.

During the year ended 31 December 2006, an interim dividend of HK$0.7 cents per share was paid.

15. (LOSS) EARNINGS PER SHARE

The calculation of the loss per share is based on the loss for the year of RMB19,457,177 (2006: net profit of RMB12,357,589) and weighted average number of ordinary shares of 395,000,000 (2006: 399,958,904).

For the years ended 31 December 2007 and 2006, no diluted (loss) earnings per share has been presented because the exercise price of the Company's share options was higher than the average market price of the Company's shares and there were no other potential ordinary shares outstanding for the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture and fixtures	Computers and equipment	Motor vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
COST						
At 1 January 2006	12,189,762	3,549,000	75,464	7,469,749	896,962	24,180,937
Additions	–	69,000	–	738,278	233,907	1,041,185
Disposals	–	–	–	(841,257)	–	(841,257)
At 31 December 2006	12,189,762	3,618,000	75,464	7,366,770	1,130,869	24,380,865
Additions	2,364,587	–	164,350	821,410	–	3,350,347
Disposals	–	–	–	(404,122)	(233,907)	(638,029)
At 31 December 2007	14,554,349	3,618,000	239,814	7,784,058	896,962	27,093,183
DEPRECIATION						
At 1 January 2006	341,314	2,507,282	70,678	4,211,087	285,299	7,415,660
Provided for the year	585,109	259,093	809	1,195,824	132,032	2,172,867
Eliminated on disposals	–	–	–	(784,754)	–	(784,754)
At 31 December 2006	926,423	2,766,375	71,487	4,622,157	417,331	8,803,773
Provided for the year	689,150	259,093	10,709	985,720	120,453	2,065,125
Eliminated on disposals	–	–	–	(366,507)	(39,366)	(405,873)
At 31 December 2007	1,615,573	3,025,468	82,196	5,241,370	498,418	10,463,025
CARRYING VALUES						
At 31 December 2007	12,938,776	592,532	157,618	2,542,688	398,544	16,630,158
At 31 December 2006	11,263,339	851,625	3,977	2,744,613	713,538	15,577,092

Leasehold land and buildings purchased in 2005 and 2007 are held under a medium lease in the PRC. The allocation between the land and building elements cannot be made reliably, the leasehold interest in land is therefore accounted for as property, plant and equipment.

17. INTANGIBLE ASSETS

	Software purchased *RMB*	Software development *RMB*	Total *RMB*
COST			
At 1 January 2006	–	10,543,011	10,543,011
Additions	1,500,000	3,382,534	4,882,534
At 31 December 2006	1,500,000	13,925,545	15,425,545
Write-off	(1,500,000)	–	(1,500,000)
At 31 December 2007	–	13,925,545	13,925,545
AMORTISATION			
At 1 January 2006	–	3,150,372	3,150,372
Charge for the year	125,000	3,373,032	3,498,032
At 31 December 2006	125,000	6,523,404	6,648,404
Charge for the year	–	5,120,651	5,120,651
Write-off	(125,000)	–	(125,000)
At 31 December 2007	–	11,644,055	11,644,055
CARRYING VALUES			
At 31 December 2007	–	2,281,490	2,281,990
At 31 December 2006	1,375,000	7,402,141	8,777,141

Software purchased is acquired from independent third party and software development is related to internally-generated software expenditure. The above intangible assets are amortised on a straight-line basis over their estimated useful lives of two years after they are available for use.

The Group wrote off software purchased from an independent third party at its carrying value of RMB1,375,000 during the year ended 31 December 2007. After negotiation, the supplier agreed to waive RMB1,000,000 of the purchase price payable, resulting in a net loss of RMB375,000.

18. INTEREST IN AN ASSOCIATE

	2007	2006
	RMB	*RMB*
Cost of investment in an associate		
Unlisted	**8,100,000**	8,100,000
Share of post-acquisition losses	**(1,909,801)**	(2,145,018)
	6,190,199	5,954,982

At 31 December 2007 and 2006, the Group held a 27% equity interest in Shanghai Beimanyuanmai Information Technology Company Ltd. 上海貝曼元脉信息技術有限公司 which is established and operated in the PRC. The principal activities of the associate are design, production and development of telecommunications terminal equipment.

The summarised financial information in respect of the associate is set out below:

	2007	2006
	RMB	*RMB*
Total assets	**48,464,049**	48,867,954
Total liabilities	**(25,537,385)**	(26,812,466)
Net assets	**22,926,664**	22,055,488
Group's share of net assets of the associate	**6,190,199**	5,954,982
Revenue	**70,056,410**	52,549,548
Profit (loss) for the year	**871,176**	(5,861,827)
Group's share of profit (loss) of the associate for the year	**235,217**	(1,582,693)

19. INVENTORIES

	2007	2006
	RMB	*RMB*
Goods for resale	**4,447,259**	3,716,779
Spare parts	**53,847**	171,876
	4,501,106	3,888,655

20. TRADE RECEIVABLES AND NOTE RECEIVABLES

	2007	2006
	RMB	*RMB*
Trade receivables	**37,094,081**	49,802,000
Less: accumulated impairment loss	**(9,680,108)**	(481,767)
	27,413,973	49,320,233
Note receivables *(Note 25)*	**–**	16,963,953
	27,413,973	66,284,186

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

	2007	2006
	RMB	*RMB*
0-90 days	**17,900,021**	46,327,027
91-180 days	**1,505,009**	5,258,837
181-270 days	**6,696,053**	8,776,758
271-360 days	**99,405**	2,508,149
More than 1 year	**1,213,485**	3,413,415
	27,413,973	66,284,186

No interest is charged on the trade receivables.

20. TRADE RECEIVABLES AND NOTE RECEIVABLES *(CONTINUED)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and define credit limits for that customer. Limits attributed to customers are reviewed once a year. After an impairment loss of HK$9,198,341 provided during the year on certain trade receivables which have been overdue for a prolong period, over 71% of the trade and note receivables are neither past due nor impaired at 31 December 2007 (2006: 70%). These trade and note receivables comprise principally receivables from strategic partners and infrastructural telecommunications service providers with a reputable credit standing.

Included in the Group's trade receivable and note receivables balance are debtors with a carrying amount of approximately RMB8,009,000 which are past due at 31 December 2007 (2006: RMB19,957,000) and which the Group has not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade and note receivables at 31 December 2007 is 230 days (2006: 237 days).

During the year ended 31 December 2006, the Group had discounted note receivables of RMB16,963,953 to a financial institution with full recourse to the Group if the customers did not settle their debts. The Group recognised the cash received from the financial institution for the discounted notes as note discounted with recourse as at 31 December 2006 (note 25). The note receivables were settled and derecognised during the year.

Movements of accumulated impairment losses on trade receivables are set out as follows:

	2007	2006
	RMB	*RMB*
Balance at beginning of the year	**481,767**	996,181
Additions	**9,198,341**	–
Reversal	**–**	(514,414)
Balance at end of the year	**9,680,108**	481,767

In the current year, RMB9,198,341 (2006: nil) were assessed to be individually impaired because these receivable have been overdue for a prolonged period and considered as doubtful by the directors of the Company as at 31 Decemeber 2007.

21. AMOUNT DUE FROM A RELATED PARTY

	2007	2006
	RMB	*RMB*
Beijing Jia Bei Lin Technology Co., Ltd. ("Jia Bei Lin")	**–**	950,000

Jia Bei Lin was a company in which Wang Feixue and Jin Jianlin had beneficiary interests. The maximum amount outstanding during the year ended 31 December 2006 was RMB950,000.

The amount as at 31 December 2006 was unsecured, non-interest bearing and was fully repaid during the year.

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For the year ended 31 December 2007

22. BANK DEPOSITS

The bank deposits carry fixed interest rates ranging from 2.88% to 3.42% per annum. The directors consider that the fair values of the Group's bank deposits approximate to their corresponding carrying amounts.

23. BANK BALANCES AND CASH

Included in bank deposits are the following amounts denominated in a currency other than the functional currency of the Group:

	2007	2006
	RMB	*RMB*
Hong Kong dollar	**11,963,634**	887,489
United State dollar	**77,633**	4,925,765
Singapore dollar	**3,130**	–

The savings accounts included in bank balances carry interest at 0.72% per annum (2006: 0.72% per annum).

24. TRADE PAYABLES AND NOTE PAYABLES

	2007	2006
	RMB	*RMB*
Trade payables	**12,066,501**	14,032,190
Note payables	**3,519,934**	640,000
	15,586,435	14,672,190

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

	2007	2006
	RMB	*RMB*
0-90 days	**10,170,330**	5,949,323
More than 90 days	**5,416,105**	8,722,867
	15,586,435	14,672,190

25. NOTE RECEIVABLES DISCOUNTED WITH RECOURSE

The amounts as at 31 December 2006 bore interest rates ranging from 2.76% to 3.24% per annum and were fully settled during the year.

26. SHARE CAPITAL

	Number of shares		Share capital		Equivalent nominal value of ordinary shares	
	2007	2006	**2007**	2006	**2007**	2006
			HK$	*HK$*	*RMB*	*RMB*
Ordinary shares of HK$0.1 each						
Authorised:						
At beginning and end of the year	1,000,000,000	1,000,000,000	100,000,000	100,000,000	106,000,000	106,000,000
Issued:						
At beginning of the year	395,000,000	400,000,000	39,500,000	40,000,000	41,897,665	42,400,000
Shares repurchased and cancelled	–	(5,000,000)	–	(500,000)	–	(502,335)
At end of the year	395,000,000	395,000,000	39,500,000	39,500,000	41,897,665	41,897,665

During the year ended 31 December 2006, the Company repurchased its own shares at market value through the Stock Exchange as follows:

Month of repurchase	Number of repurchased shares	Price per share	Aggregate consideration paid
		HK$	*HK$*
December 2006	5,000,000	0.4	2,000,000 (RMB2,009,340)

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2007.

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised during the year:

	Deferred software development expenditure	Impairment loss on trade receivables	Allowance for inventories	Total
	RMB	*RMB*	*RMB*	*RMB*
At 1 January 2006	739,264	(81,349)	(31,726)	626,189
Charge to income for the year	950	58,069	31,726	90,745
At 31 December 2006 and 1 January 2007	740,214	(23,280)	–	716,934
Credit to income for the year	(768,097)	(307,304)	–	(1,075,401)
Effect of change in tax rate	370,107	(11,640)	–	358,467
At 31 December 2007	342,224	(342,224)	–	–

As at 31 December 2007, the Group has unused tax losses of approximately RMB751,000 (2006: approximately RMB157,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

As at 31 December 2007, the Group has deductible temporary difference of approximately RMB8,567,000 (2006: RMB233,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB2,281,000 (2006: RMB233,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining RMB6,286,000 (2006: nil) due to the unpredictability of future profit streams.

28. MAJOR NON-CASH TRANSACTIONS

(1) In 2006, the Group purchased an intangible asset from a third party supplier for a consideration of RMB1,500,000, of which RMB1,000,000 had not yet been settled at 31 December 2006. During the year, the amount waived by the supplier, when the intangible asset was written-off.

(2) During the year, the note receivables discounted with recourse of RMB16,963,953 was fully settled and the related note receivables were derecognised upon settlement.

29. SHARE-BASED PAYMENTS

Equity-settled share options schemes:

(a) Share option scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company on 31 October 2004 (the "Share Option Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries who meet the relevant criteria set out in the Share Option Scheme (the "Participants") as incentives and rewards for their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 30 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the options, the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant and the nominal value of the shares.

The share options are exercisable at any time during a year of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme and any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Share Option Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12-month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of shares of the Company in issue.

At 31 December 2007, the number of options granted under the Share Option Scheme was 24,900,000 (2006: 10,000,000), representing 6.30 per cent (2006: 2.53) of the shares of the Company in issue at that date.

29. SHARE-BASED PAYMENTS *(CONTINUED)*

(a) Share option scheme *(Continued)*

The following table discloses movements of the options issued under the Share Option Scheme held by the Eligible Participants during the year:

		Number of share options			
	Option category	**At 1.1.2007**	**Granted during the year**	**Forfeited during the year**	**At 31.12.2007**
Directors	2006	10,000,000	–	–	10,000,000
Directors	2007	–	11,400,000	–	11,400,000
Senior management	2007	–	3,500,000	–	3,500,000
Total		10,000,000	14,900,000	–	24,900,000

Details of specific categories of options are as follows:

Category	**Date of grant**	**Exercise period**	**Exercise price**
2006 Directors	**20.1.2006**	**20.1.2007 – 20.1.2011**	**HK$0.48**
2007 Directors	**23.4.2007**	**24.4.2008 – 24.4.2012**	**HK$0.50**
2007 Senior management	**23.4.2007**	**24.4.2008 – 24.4.2012**	**HK$0.50**

The share options granted to the directors in 2006 and 2007 are fully vested at grant date. The share options granted to the senior management in 2007 are exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each, reaching 100% on 24 April 2011.

The estimated fair value per share option granted on 20 January 2006 was RMB0.18 and the estimated fair value per share option granted on 23 April 2007 was RMB0.18 for share options granted to directors and RMB0.22 for share options granted to senior management, respectively. The fair value of the options issued under the Share Option Scheme was calculated using the Black-Scholes Model. The inputs into the model were as follows:

	Date of grant	
	20.1.2006	**23.4.2007**
Share price	HK$0.48	**HK$0.50**
Exercise price	HK$0.48	**HK$0.50**
Expected volatility	50.75%	**50.46%**
Expected life (year)	3	**3**
Risk-free rate	3.90%	**3.95%**
Expected dividend yield	0%	**0%**

29. SHARE-BASED PAYMENTS *(CONTINUED)*

(a) Share option scheme *(Continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of RMB2,229,991 for the year 31 December 2007 (2006: RMB1,818,368) in relation to the above share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(b) Share incentive scheme

The share incentive scheme was established by three shareholders of the Company, representing 18,000,000 shares 4.5% of the enlarged issued share capital of the Company after the listing of the Company ("Share Incentive Scheme"). The purpose of the Share Incentive Scheme is to issue options to selected employees, officers, consultants, agents and advisers of the Group who meet the relevant eligibility criteria set out in the Share Incentive Scheme (the "Eligible Participants"). The employee participants must have been employed by a member of the Group prior to the listing of the Company in November 2004.

The Share Incentive Scheme shall remain in full force and effect for so long as is necessary to give effect to the issue and exercise of options granted in accordance with its terms.

The exercise price per share under the Share Inventive Scheme is HK$0.20 and each tranche of option has a term of five years from the first exercise date, after which any unexercised portion of an option shall lapse.

Each option will be exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 20% each year, reaching 100%.

29. SHARE-BASED PAYMENTS *(CONTINUED)*

(b) Share incentive scheme *(Continued)*

At 31 December 2007, the outstanding number of options granted under the Share Incentive Scheme was 8,363,400 (2006: 10,401,400), representing 2.12 per cent (2006: 2.63 per cent) of the shares of the Company in issue at that date.

The following table discloses movements of the options issued under the Share Incentive Scheme held by the eligible participants during the year:

		Number of share options							
	Option category	At 1.1.2006	Granted during the year	Exercised during the year	Forfeited during the year	At 31.12.2006 and 1.1.2007	Exercised during the year	Forfeited during the year	At 31.12.2007
Employees	2004	10,283,400	–	(168,000)	(2,784,000)	7,331,400	(880,000)	(1,026,000)	5,425,400
Consultants	2004	1,080,000	–	–	(90,000)	990,000	–	–	990,000
Consultants	2005	1,000,000	–	–	–	1,000,000	(24,000)	–	976,000
Employees	2006	–	1,140,000	–	(60,000)	1,080,000	–	(108,000)	972,000
		12,363,400	1,140,000	(168,000)	(2,934,000)	10,401,400	(904,000)	(1,134,000)	8,363,400

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	14.03.2006	14.03.2007 – 14.03.2011	HK$0.2

During the year ended 31 December 2006, 1,140,000 options were granted on 14 March 2006. Total expense of RMB436,533 was recognised as shareholders contribution.

29. SHARE-BASED PAYMENTS *(CONTINUED)*

(b) Share incentive scheme *(Continued)*

The estimated fair value of the options issued in 2006 under the Share Incentive Scheme was calculated using the Black-Scholes Model. The inputs into the models were as follows:

	Date of grant 22.12.2006 Consultants
Share price	HK$0.50
Exercise price	HK$0.2
Expected volatility	59.76%
Expected life (year)	3.6-5.8
Risk-free rate	4.3%
Expected dividend yield	0%

Expected volatility used for the options issued in 2006 was determined by using the volatility of the Company's share prices over the previous one year. The expected life used in the models have been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

During the year ended 31 December 2007, no options were granted. The Group reversed RMB21,497 upon the share option lapsed due to resignation of certain employees during the vesting period under the Share Incentive Scheme.

30. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under operating leases in respect of rented office premises that fall due as follows:

	2007	2006
	RMB	*RMB*
Within one year	**2,751,000**	2,884,000
In the second to fifth year inclusive	**1,632,000**	4,260,000
Over five years	**–**	292,000
	4,383,000	7,436,000

Leases are negotiated for a term which ranged from two to seven years and rentals are fixed at inception of the leases.

31. RETIREMENT BENEFITS SCHEME

The Group's subsidiaries in the PRC participate in the retirement benefits scheme established by the government for the qualifying employees in the PRC. The assets of the scheme are held separately from the assets of the Group. Under the scheme, contributions made by the Group are calculated on the basis of 19% to 20% of the enrolled employees' salaries. Apart from the above, the Group has no further obligations under the retirement benefits scheme.

The amount of such contributions charged to the consolidated income statement was RMB2,379,693 (2006: RMB2,673,824).

32. DISPOSAL OF MAJOR BUSINESS OPERATIONS AND CHANGE IN CONTROLLING SHAREHOLDERS

(a) Pursuant to the S&P Agreements dated 24 October 2007, the controlling shareholders of the Company, 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%, 3.29% and 7.59% respectively of the issued share capital of the Company) agreed to sell their equity interests of the Company to Betterment Enterprises Limited ("Betterment"), an independent third party. The transaction was completed on 21 January 2008.

On 20 February 2008, Betterment sold 80,000,000 of the Company's shares through the Stock Exchange and thereafter the shareholding of the Company, held by Betterment was diluted to 29.29%.

(b) Pursuant to the disposal agreement dated 24 October 2007, the Company agreed to sell and Bright Pearl Holdings Limited ("Bright Pearl"), a shareholder of the Company, agreed to purchase the entire interest in Modern Age and its subsidiary, ZZNode (Beijing) for a cash consideration of HK$110,000,000. Pursuant to the terms of the disposal agreement, a group restructuring will be implemented to facilitate the implementation of the Disposal. The major steps of the restructuring include: (i) Capitalisation of the intercompany loans owed to the Company by Modern Age in exchange for one share of Modern Age; (ii) Transfer of shares of Great Process Limited by Modern Age to the Company; (iii) Transfer of ZZNode (Shanghai)'s shares by ZZNode (Beijing) to Beijing Modern Age Technologies Company Limited ("Beijing Modern Age"); (iv) Transfer of the entired registered capital of Beijing Modern Age by Modern Age to Great Process.

The Disposal Group includes non-current assets and liabilities relating to all of the Group's segments as disclosed in Note 8.

The Disposal was approved in the extraordinary general meeting of the Company held on 10 January 2008. Up to the date of this report, the directors are still in the process of quantifying the loss resulting from the Disposal.

33. RELATED PARTY DISCLOSURES

During the year ended 31 December 2006, the Group purchased materials from Jia Bei Lin amounting to RMB645,810.

As disclosed in note 32(b), the Company entered into a disposal agreement with Bright Pearl, a shareholder of the Company to disposal of its entired interest in Modern Age and ZZNode (Beijing) at a consideration of HK$110,000,000. The Disposal was completed on 21 January, 2008.

The Group did not enter into any significant transactions with related parties during the year ended 31 December 2007.

Details of the amount due from a related party is disclosed in note 21.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was disclosed in notes 12 and 13.

34. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2007 and 2006 are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital registered capital	Proportion of nominal value of share capital/ registered capital held by the Company	Principal activities
Direct subsidiary				
Modern Age Investments Limited	British Virgin Islands ("BVI")	US$4,600,000	100%	Investment holding
Indirect subsidiaries				
ZZNode (Beijing)	The PRC	RMB27,441,194	100%	Provision of telecommunications and internet technologies related services and products
ZZNode (Shanghai)	The PRC	RMB5,000,000	98%	Provision of telecommunications and internet technologies related services and products
Great Process Limited	Hong Kong	HK$100	100%	Investment holding
Beijing Modern Age 北京當代節點科技有限公司	The PRC	HK$5,000,000	100%	Investment holding

ZZNode (Beijing) and Beijing Modern Age are wholly foreign owned enterprise and ZZNode (Shanghai) is a private limited company.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

35. POST BALANCE SHEET EVENT

An ordinary resolution in connection with the Disposal as detailed in note 32(b) was passed at the extraordinary general meeting of the company held on 10 January 2008. The Disposal was completed on 21 January 2008.

Also, as part of the "Very Substantial Disposal, Connected Transaction and Special Deal in relation to the Disposal of Modern Age Investments Limited and Continuing connected Transaction", the details of which were included in the circular dated 21 December 2007, all of the outstanding options as disclosed in note 29 were either exercised or cancelled on 19 February 2008.