Interim Report 2008

ZZNode

ZZNode

ZZNode Technologies Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2371)

The Board of Directors (the "Board") of ZZNode Technologies Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 and the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**10,490**	47,882
Cost of sales		**(9,736)**	(31,138)
Gross profit		**754**	16,744
Other income	*4*	**385**	3,782
Fair value changes on investments held-for-trading		**(286)**	–
Loss on disposal of subsidiaries	*15*	**(22,360)**	–
Research and development expenditure		**(1,551)**	(7,868)
Distribution costs		**(526)**	(2,465)
Administrative expenses		**(11,974)**	(10,768)
Finance costs	*5*	**(31)**	–
Share of result of an associate		**(195)**	131
Loss before taxation	*6*	**(35,784)**	(444)
Taxation	*7*	**–**	(122)
Loss for the period		**(35,784)**	(566)
Dividend	*8*	**–**	–
Loss per share – Basic	*9*	**RMB(8.90) cents**	RMB(0.14) cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**1,185**	16,630
Investment properties		**12,950**	–
Goodwill	*14*	**1,061**	–
Intangible assets		**–**	2,282
Interest in an associate		**–**	6,190
		15,196	25,102
Current assets			
Inventories		**2,345**	4,501
Investments held-for-trading		**1,187**	–
Amounts due from customers for integration solutions		**–**	12,342
Trade receivables	*10*	**1,652**	27,414
Prepayments, deposits and other receivables	*11*	**82,140**	5,244
Bank deposits		**–**	37,003
Bank balances and cash		**4,176**	40,715
		91,500	127,219
Current liabilities			
Trade payables	*12*	**2,351**	12,066
Note payables	*12*	**–**	3,520
Advances from customers, accrued charges and other payables		**9,630**	16,792
Other loan		**6,167**	–
Tax liabilities		**–**	556
		18,148	32,934
Net Current Assets		**73,352**	94,285
		88,548	119,387
Capital and Reserves			
Share capital	*13*	**42,816**	41,898
Reserves		**45,732**	77,489
Total Equity		**88,548**	119,387

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Total equity attributable to the equity holders of the Company at 1 January	**119,387**	136,635
Recognition of equity settled share-based payments	**–**	2,058
Net gain not recognised in the consolidated income statement	**–**	2,058
Loss for the period	**(35,784)**	(566)
Issue of shares upon exercise of share options	**4,945**	–
	(30,839)	(566)
Total equity attributable to the equity holders of the Company at 30 June	**88,548**	138,127

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Net cash used in operating activities	**(12,045)**	(8,076)
Net cash (used in)/from investing activities	**(72,610)**	7,201
Net cash from financing activities	**11,113**	–
DECREASE IN CASH AND CASH EQUIVALENTS	**(73,542)**	(875)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**77,718**	9,976
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**4,176**	9,101
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**4,176**	9,101

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain investment properties and financial instruments, which are measured at revalued amounts or fair values. The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

The Group has not early applied the following new standards, amendments or interpretations that have been issued 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]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreement for the construction of real estate[1]
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign corporation[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 July 2008.

[4] Effective for annual periods beginning on or before 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company (the "Directors") anticipate that the application of the other new or revised standards, amendment or interpretation will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the development and provision of operational support system products and solutions in the People's Republic of China (the "PRC").

Revenue represents the net amounts received and receivable for sales of hardware and software and services income from provision of system integration and maintenance, training and other services.

The Group is currently organised into four revenue streams: sale of self-developed software, sale of third party software and hardware in relation to system integration, system integration and maintenance, training and other services. These revenue streams are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

	Turnover		Segment result	
	six months ended 30 June			
	2008	2007	**2008**	2007
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Operating divisions	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Sale of self-developed software	**3,792**	21,121	**(1,528)**	3,108
Sale of third party software and hardware in relation to system integration business	**3,038**	16,837	**390**	3,380
System integration	**–**	764	**–**	474
Maintenance, training and other services	**3,660**	9,160	**123**	4,978
	10,490	47,882	**(1,015)**	11,940
Unallocated other income			**385**	769
Unallocated corporate expenses			**(12,282)**	(13,284)
Fair value changes on investments held-for-trading			**(286)**	–
Loss on disposal of subsidiaries			**(22,360)**	–
Finance costs			**(31)**	–
Share of result of an associate			**(195)**	131
Loss before taxation			**(35,784)**	(444)
Taxation			**–**	(122)
Loss for the period			**(35,784)**	(566)

4. OTHER INCOME

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Gain on disposal of investments held-for-trading	**108**	–
Rental income	**32**	–
Value-added tax refund income	**–**	3,012
Interest income	**149**	680
Sundries	**96**	90
	385	3,782

5. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other loan interest	**31**	–

6. LOSS BEFORE TAXATION

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Loss before taxation has been arrived at after charging:		
Staff costs, including directors' emoluments	**5,473**	13,635
Share-based payment expense	**–**	2,059
Impairment loss on trade receivables	**–**	471
Depreciation of property, plant and equipment	**160**	1,039
Operating lease rentals in respect of rented premises	**522**	1,216
Research and development expenditure	**1,171**	4,840
Add: Amortisation of intangible assets	**380**	3,028
	1,551	7,868

7. TAXATION

The statutory tax rate for Shanghai Zhizhen Node Technology Development Co., Ltd.上海直真節點技術開發有限公司("ZZNode (Shanghai)") is 15%. However, they receive preferential tax treatment as explained below:

ZZNode (Shanghai) is also recognized 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 the six months ended 30 June 2007 and 2008 as the Company's subsidiary in the PRC incurred a tax loss.

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2007 and 2008 as the Group's income neither arises in, nor is derived from Hong Kong.

8. DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

9. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the six months ended 30 June 2008 of RMB35,784,000 (six months ended 30 June 2007: RMB566,000) and weighted average number of ordinary shares of 402,292,818 during the period (six months ended 30 June 2007: 395,000,000 shares).

No diluted loss per share for the six months ended 30 June 2008 is presented as the share options outstanding had an anti-dilutive effect on the basic loss per share for the period. There were no other potential ordinary shares outstanding during the six months ended 30 June 2007.

10. TRADE RECEIVABLES

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

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
0 to 90 days	**373**	17,900
91 to 180 days	**804**	1,505
181 to 270 days	**475**	6,696
271 to 365 days	**–**	100
More than 1 year	**–**	1,213
	1,652	27,414

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Deposit for acquisition of Precious Luck Enterprises Limited ("Precious Luck") *(note a)*	**21,120**	–
Deposit for acquisition of Wellcom International Limited *(note b)*	**44,000**	–
Other prepayments, deposits and other receivable	**17,020**	5,244
	82,140	5,244

(a) On 27 April 2008, the Company entered into an agreement with a third party to acquire entired issued share capital of Precious Luck, a company incorporated in the British Virgin Islands at an aggregate consideration of HK$2,928 million, of which HK$24 million was paid by cash and the remaining HK$2,904 million will be payable by issuing convertible notes of the Company. The transaction is not yet completed.

(b) Deposit paid for earnest money of an investment project announced on 7 April 2008 by the Company.

12. TRADE PAYABLES AND NOTE PAYABLES

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Trade payables	**2,351**	12,066
Note payables	**–**	3,520
	2,351	15,586

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

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
0 to 90 days	**415**	10,170
More than 90 days	**1,936**	5,416
	2,351	15,586

13. SHARE CAPITAL

	30 June 2008 (Unaudited) *RMB'000*	31 December 2007 (Audited) *RMB'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**106,000**	106,000
Issued and fully paid:		
405,000,000 ordinary shares (31 December 2007: 395,000,000) of HK$0.1 each	**42,816**	41,898

14. ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2008, the Group acquired investment properties and its related assets and liabilities, at a consideration of HK$17,650,000 from third parties. The purchase was by way of acquisition of the entire issued share capital of five subsidiaries. These transactions have been deemed as a purchase of assets and related liabilities.

The net assets acquired in the transactions are as follows:

	RMB'000
Net assets acquired:	
Investment properties	**12,950**
Property, plant and equipment	**735**
Other receivable and deposit paid	**743**
Bank balances and cash	**101**
Accrued expenses and other deposit received	**(41)**
	14,488
Cash consideration	**15,549**
Goodwill arising from acquisition	**1,061**

15. DISPOSALS OF SUBSIDIARIES

On 21 January 2008, the Group disposed the wholly owned subsidiary, Modern Age Investments Limited and its subsidiary, Beijing Zhizhen Node Technology Development Co., Ltd ("Beijing ZZNode"), for a consideration of HK$110,000,000. The consolidated net assets of the subsidiaries at the date of disposal were as follows:

	RMB'000
Net assets disposed:	
Property, plant and equipment	**17,837**
Investment in associates	**5,995**
Inventories	**14,345**
Trade receivables	**28,989**
Other receivable and deposit paid	**11,764**
Bank balances and cash	**65,938**
Trade payables	**(14,596)**
Accruals and other payables	**(11,010)**
	119,262
Cash consideration	**96,902**
Loss on disposals	**(22,360)**

16. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2008 and 31 December 2007.

17. CAPITAL COMMITMENTS

The Group had no material capital commitment as at 30 June 2008 and 31 December 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2008, the Group recorded a turnover of RMB10,490,000 (six months ended 30 June 2007: RMB47,882,000), representing a decrease of 78.1% as compared to the last corresponding period. Of these, turnover derived from the sales of self-developed software and other related services was RMB7,452,000 (six months ended 30 June 2007: RMB31,045,000), representing a decrease of 76.0% as compared to the last corresponding period. Turnover derived from sales of third party software and hardware in relation to system integration decreased from RMB16,837,000 in the last corresponding period to approximately RMB3,038,000, representing a decrease of 82.0% as compared to the last corresponding period.

The Group recorded a gross profit of RMB754,000 (six months ended 30 June 2007: RMB16,744,000). The overall gross profit margin was approximately 7.2%. The loss attributable to shareholders was RMB35,784,000 (six months ended 30 June 2007: RMB566,000). The loss per share was approximately RMB8.9 cents (six months ended 30 June 2007: RMB0.14 cents).

The decrease in turnover and gross margin for the first half of the year 2008 was due to the disposal of the wholly owned subsidiary, Modern Age Investments Limited and its subsidiary, Beijing ZZNode. The loss incurred for the current period was mainly attributable to the loss on disposal of subsidiaries amounted to RMB22,360,000.

Business Review

In the first half of the year 2008, the Group is principally engaged in the ITMS broadband value-added business platform, 3G network optimization service and software development service.

The Group's major clients are telecommunications operators and telecommunications equipment manufacturers. These telecommunications operators are mainly China Telecommunications Corporation and China Netcom Group, and these telecommunications equipment manufacturers are mainly ZTE Corporation and Alcatel-Lucent.

Given the uncertainties over the restructuring of the Chinese telecommunications industry during the first half of the year, we remained more cautious about project investment and execution. Coupled with the severe inflation in China during the year, the pressure on operating costs is mounting. We expect to see significant improvement following the announcement of the restructuring program.

In the year 2008, our focus will be:

– to market and acquire more contracts relating to the broadband value-added business platform;

– to step up control over the costs of the network optimization service and to make technical preparations for the 3G optimization service;

– to reinforce the management of software development and to fully execute the CMMI software development process.

During the first half of the year 2008, we obtained intellectual property certification for the broadband value-added business platform, and a Grade C qualification for system integration from The Ministry of Information Industry of the Central People's Government.

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.

Liquidity and Financial Resources

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

As at 30 June 2008, the Group had bank balances and cash of approximately RMB4,176,000 as compared to the bank balances and cash of approximately RMB40,715,000 and bank deposits of approximately RMB37,003,000 as at 31 December 2007.

The Group's net current assets totalled approximately RMB73,352,000 as at 30 June 2008, against approximately RMB94,285,000 as at 31 December 2007. The Group's current ratio was approximately 5.04 as at 30 June 2008 as compared with 3.86 as at 31 December 2007.

Gearing Ratio

As at 30 June 2008, the Group did not have any bank borrowings. In this regard, the Group held a net cash position with nil gearing ratio (total bank borrowings to shareholders' funds) as at 30 June 2008 (31 December 2007: Nil).

Capital Structure

During the period, 10,000,000 new shares were issued upon the exercise of share options. The capital of the Company comprises only ordinary shares. As at 30 June 2008, 405,000,000 shares were in issue (31 December 2007: 395,000,000 shares).

Material Acquisitions and Disposals/Future Plans for Material Investments

On 13 May 2008, the Company announced a very substantial acquisition. On 27 April, 2008, Million Gold Holdings Limited, a wholly owned subsidiary of the Company entered into an agreement with Rotaland Limited and Ascher Group Limited in relation to the sales and purchase of 100% interest of Precious Luck Enterprises Limited ("Precious Luck"). The principal asset of Precious Luck is its 100% ownership in Xinhua Technology International Limited ("Xinhua Technology"). Xinhua Technology will sign a capital injection agreement with ChuangZhi LiDe (Beijing) Technology Development Company Limited ("CZLD") whereby Xinhua Technology will inject RMB50 million in return for 98% of the enlarged issued share capital of CZLD. The aggregate consideration for the transaction is HK$2,928 million, of which HK$24 million was paid by cash and HK$2,904 million will be payable by issuing convertible notes.

Xinhua Media and CZLD have signed a cooperation agreement for the operation and broadcasting across a network of outdoor mega LED displays throughout the PRC's major cities. The Directors expect that mega outdoor displays will generate revenues from advertisements placed thereon. There will be continuous broadcast in the day time and different charge rates will be applied to different advertising time slot of the day. Advertising agents will be engaged to market and sell time slot for advertisements. Revenue growth will be driven by the number of advertising slots available across the mega LED displays network and increasing broadcasting hours and advertising air-time. The Directors are confident that the operation of outdoor mega LED displays will generate stable income to the Group.

Fund Raising Activities

Placing of new shares under general mandate

On 30 June 2008, the Company entered into a placing agreement with Hong Tong Hai Securities Limited, as the placing agent in relation to a placement of 81,000,000 placing shares to independent investors under general mandate of the Company at a price of HK$1.40 per placing share on best effort basis (the "Placing"). The maximum net proceeds from the Placing of approximately HK$110 million are intended to be used for general working capital of the Company. As at the date hereof, the Placing has not been completed.

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. During the six months ended 30 June 2008, 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.

Charge on Group's Assets

As at 30 June 2008, the Group did not have any charges on its assets (31 December 2007: Nil).

Employee Information and Remuneration Policies

As at 30 June 2008, the Group has 40 employees (as at 31 December 2007: 420). The Group remunerates its employees on their performance, experience and prevailing industry practices. The Directors are confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain high standard of service to our clients.

SHARE OPTION SCHEME

The Group adopted 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.

(a) Share Option Scheme

Details of the movements of the Share Option Scheme during the six months ended 30 June 2008 are as follows:

Name or category of grantee	Date of grant	Outstanding as at 1 January 2008	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2008	Exercisable period	Exercise price per share of the Company HK$
(a) Director									
Ms. Wang Feixue	20 January 2006	4,000,000	–	4,000,000	–	–	–	20 January 2007–20 January 2011	0.48
	23 April 2007	3,950,000	–	–	3,950,000*	–	–	24 April 2008–24 April 2012	0.50
Mr. Jin Jianlin	20 January 2006	4,000,000	–	4,000,000	–	–	–	20 January 2007–20 January 2011	0.48
	23 April 2007	3,950,000	–	–	3,950,000*	–	–	24 April 2008–24 April 2012	0.50
Mr. Yuan Juan	20 January 2006	1,500,000	–	1,500,000	–	–	–	20 January 2007–20 January 2011	0.48
	23 April 2007	3,000,000	–	–	3,000,000*	–	–	24 April 2008–24 April 2012	0.50
Ms. Hu Rong	20 January 2006	500,000	–	500,000	–	–	–	20 January 2007–20 January 2011	0.48
	23 April 2007	500,000	–	–	500,000*	–	–	24 April 2008–24 April 2012	0.50
(b) Senior Management	23 April 2007	3,500,000	–	–	3,500,000*	–	–	24 April 2008–24 April 2012	0.50
		24,900,000	–	10,000,000	14,900,000	–	–		

**Note:* Those share options have been cancelled by accepting an option offer at HK$0.2075 in cash. For details, please refer to the circular of the Company dated 1 February 2008.

(b) Share Incentive Scheme

The Share Incentive Scheme was established by three shareholders of the Company as a trust into which they transferred in 18,000,000 shares of the Company (the "Transferred Shares"), representing 4.5% of the enlarged issued share capital of the Company after the listing of the Company to be held on trust by the trustee of the trust pursuant to the Trust Deed dated 27 October, 2004.

The trustee of the trust is Silver Well Investment Limited ("Silver Well"), a company incorporated in the British Virgin Islands. Silver Well is wholly-owned by Mr. Jin Jianlin, who used to be an executive director of the Company and resigned on 20 February 2008.

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.

Following the disposal of the wholly owned subsidiary, Modern Age Investments Limited and its subsidiary, Beijing ZZNode on 21 January 2008 ("Disposal Date"), the board of directors of Silver Well has approved the alternation of the Eligible Participants of the Share Incentive Scheme to the employees or consultants of Beijing ZZNode and its subsidiaries and associated companies. In this respect, the details of the movements of the Share Incentive Scheme from 1 January 2008 to the Disposal Date are as follows:

	Option category	Balance as at 1 January 2008	Grant during the period	Exercised during the period	Forfeited during the period	Balance as at 21 January 2008
Employees	2004	5,425,400	–	–	–	5,425,400
Consultants	2004	990,000	–	–	–	990,000
Consultants	2005	976,000	–	–	–	976,000
Employees	2006	972,000	–	–	–	972,000
		8,363,400	–	–	–	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 30 June 2008, none of the Directors and the chief executive of the Company held any interests or short positions 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.

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

As at 30 June 2008, 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
Betterment Enterprises Limited	Corporate (*Note 1*)	118,624,108	29.29%
PME Group Limited	Corporate (*Note 1*)	118,624,108	29.29%
Ascher Group Limited *(Note 2)*	Corporate	377,520,000	93.21%
Mr. Lu Xing ("Mr. Lu")	Held by controlled corporation *(Note 3)*	377,520,000	93.21%
Rotaland Limited *(Note 2)*	Corporate	1,074,480,000	265.30%
Mr. Ho Wai Kong ("Mr. Ho")	Held by controlled corporation *(Note 4)*	1,074,480,000	265.30%

Notes:

1. Betterment Enterprises Limited is a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Richcom Group Limited (99.49%). Richcom Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by CR Investment Group Limited. CR Investment Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by PME Group Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 379).

2. On 27 April 2008, Million Gold Holdings Limited, a wholly owned subsidiary of the Company with limited liability, together with the Company, entered into an agreement with Rotaland Limited and Ascher Group Limited in relation to the acquisition of the entire issued share capital of Precious Luck (the "Acquisition"), a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Rotaland Limited as to 74% and Ascher Group Limited as to 26%. Upon completion, 377,520,000 and 1,074,480,000 convertible notes will be issued to Ascher Group Limited and Rotaland Limited respectively. However, as at 30 June 2008, the Acquisition has not been completed.

3. Ascher Group Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Lu.

4. Rotaland Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Ho.

Save as disclosed above, as at 30 June 2008, the Company had not been notified of any interest or short position being held by any substantial shareholder in the shares or underlying shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations" above, at no time during period under review was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the Directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period under review.

CONNECTED PARTY TRANSACTIONS

During the six months ended 30 June 2008, 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 ZZNode 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.

CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2008, the Company was in general compliance with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, except for the deviation from the code provision A.2.1 and A.4.1 of the CG code.

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 six months ended 30 June 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.

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.

During the six months ended 30 June 2008, the independent non-executive Directors, 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.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

During the six months ended 30 June 2008, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code as set out in Appendix 10 of the Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors' securities transactions.

AUDIT COMMITTEE

The primary duties of the audit committee are to review the financial reporting process and internal control systems of the Group. The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Lam Ka Wai, Graham (Chairman of the audit committee), Mr. Lam Raymond Shiu Cheung and Mr. Chow Shiu Ki. The interim results for the six months ended 30 June 2008 have been reviewed by the Audit Committee but have not been audited by the Company's auditors.

PURCHASE, REDEMPTION OR SALE 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 six months ended 30 June 2008.

By order of the board of Directors
ZZNode Technologies Company Limited
Chan Shui Sheung, Ivy
Executive Director

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

Executive Directors
Chan Shui Sheung, Ivy
So Wai Lam
Liu Yong Fei
Tin Ka Pak

Independent Non-Executive Directors
Chow Shiu Ki
Lam Raymond Shiu Cheung
Lam Ka Wai, Graham

Hong Kong, 10 September 2008