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

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2371)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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		**(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		**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		**82,140**	5,244
Bank deposits		**–**	37,003
Bank balances and cash		**4,176**	40,715
		91,500	127,219
Current liabilities			
Trade payables	*11*	**2,351**	12,066
Note payables	*11*	**–**	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		**42,816**	41,898
Reserves		**45,732**	77,489
Total Equity		**88,548**	119,387

NOTES

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. 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]

[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.

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 investment 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: Amortization 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 in the consolidated income statement 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)	31 December 2007 (Audited)
	RMB'000	*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. TRADE PAYABLES AND NOTE PAYABLES

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

12. CONTINGENT LIABILITIES

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

13. 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% 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 82.1% 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%. Net loss attributable to shareholders was RMB35,784,000 (six months ended 30 June 2007: RMB566,000). 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 subsidiaries, Beijing Zhizhen Node Technology Development Co. Ltd. The net 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, 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 430 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.

CORPORATE GOVERNANCE PRACTICES

Throughout the period, 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 period, 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 period, 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

Hong Kong, 10 September 2008

As at the date of this announcement, the Board comprises Ms. Chan Shui Sheung, Ivy, Ms. So Wai Lam, Mr. Liu Yong Fei, Mr. Tin Ka Pak as executive Directors; Mr. Chow Shiu Ki, Mr. Lam Raymond Shiu Cheung and Mr. Lam Ka Wai, Graham as independent non-executive Directors.

* *For identification purposes only*