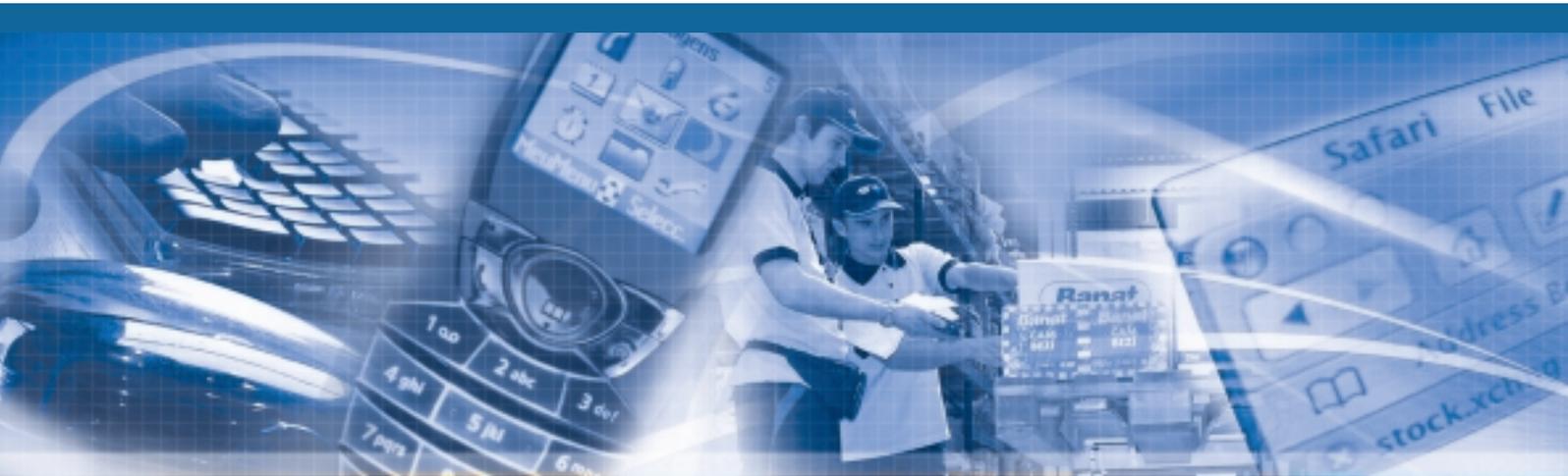


# **CITIC 21CN** **中信 21世紀**

## INTERIM REPORT **2006**



**CITIC 21CN COMPANY LIMITED**

(Incorporated in Bermuda with limited liability)

Stock Code:241



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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Wang Jun (*Chairman*)

Ms. Chen Xiao Ying (*Executive Vice Chairman*)

Mr. Luo Ning (*Vice Chairman*)

Mr. Sun Yalei

Mr. Zhang Lian Yang

Ms. Xia Guilan

#### Independent Non-Executive Directors

Mr. Hui Ho Ming, Herbert, *JP*

Mr. Zhang Jian Ming

Mr. Liu Hongru

### COMPANY SECRETARY

Mr. Yee Foo Hei, *ACS, ACIS, FCCA*

### QUALIFIED ACCOUNTANT

Mr. Hui Man Chun, *CPA, FCCA*

### PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

### AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

### STOCK CODE

241

### LEGAL ADVISORS

#### Hong Kong

David Lo & Partners

#### Bermuda

Appleby Hunter Bailhache

### REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

### HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Secretaries Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited

Argyle House, 41A Cedar Avenue

Hamilton HM 12

Bermuda

### PRINCIPAL PLACE OF BUSINESS

Suites 7001-7005, 70/F

Two International Finance Centre

8 Finance Street, Central, Hong Kong

# Management Discussion and Analysis

## Financial Review

The key financial figures of the Group for the six months ended 30th September 2006 and the comparative figures for the six months ended 30th September 2005 were summarised as follows:

	<b>2006</b>	2005	Change
	<b>HK\$'000</b>	HK\$'000	%
Turnover	<b>162,660</b>	192,361	(15.4)
Gross profit	<b>55,344</b>	83,648	(33.8)
Gross profit percentage	<b>34.0%</b>	43.5%	N/A
Other income	<b>15,149</b>	772	1,862.3
Administrative expenses	<b>70,193</b>	74,959	(6.4)
Share of (loss) profit of an associate	<b>(173)</b>	6,894	N/A
Profit before interest, taxes, depreciation and amortisation	<b>8,442</b>	22,145	(61.9)
Net (loss) profit attributable to shareholders	<b>(687)</b>	9,525	N/A
(Loss) earnings per share			
Basic	<b>(0.02)</b>	0.29	N/A
Diluted	<b>(0.13)</b>	0.28	N/A

## Results

### - Turnover

Turnover of the Group for the six months ended 30th September 2006 was HK\$162,660,000 as compared with the turnover of HK\$192,361,000 for the six months ended 30th September 2005. The decrease was caused by the fall in revenue of 廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle"), despite both 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) ("HL95") and 中國信託信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT") have recorded increase in revenue for the six months ended 30th September 2006.

Grand Cycle, a wholly-owned subsidiary of the Group, is engaged in software development and system integration services and its turnover for the six months ended 30th September 2006 was HK\$6,011,000 as compared with the turnover of HK\$50,850,000 for the six months ended 30th September 2005. For the six months ended 30th September 2005, apart from providing system integration services to telephone operators in China, Grand Cycle upgraded HL95's call centres and set up the database infrastructure for CCIT's product identification, authentication and tracking system ("PIATS"). These projects for HL95 and CCIT were completed by March 2006 and no revenue relating to these projects was recorded during the six months ended 30th September 2006. Moreover, in the current period, Grand Cycle was in a trough of its cyclical business process as it had completed most of its existing projects for telephone operators and was preparing for new long-term projects starting in the current financial year.

## Management Discussion and Analysis *(continued)*

HL95, a 49%-owned jointly controlled entity of the Group, is engaged in telecommunications/information value-added services. The Group's share of the turnover of HL95 for the six months ended 30th September 2006 increased 9.5% to HK\$150,958,000 from HK\$137,908,000 for the six months ended 30th September 2005. The increase in revenue was mainly due to the increased number of corporate clients using HL95's Internet-protocol long distance phone call service ("IP phone") as well as the increased usage of the short messaging service ("SMS") and interactive voice response service ("IVRS") by the consumers. The Group's share of the turnover of HL95 comprised of HK\$71,577,000 (2005: HK\$69,962,000) from SMS, HK\$53,615,000 (2005: HK\$46,705,000) from IVRS, HK\$17,112,000 (2005: HK\$13,938,000) from IP phone, and HK\$8,654,000 (2005: HK\$7,303,000) from other value-added services such as call centre service.

CCIT, a 50%-owned jointly controlled entity of the Group, is engaged in PIATS. The Group's share of the revenue of CCIT, increased 58.0% from HK\$3,603,000 for the previous comparative period to HK\$5,691,000 for the six months ended 30th September 2006. The PIATS business was in a start-up phase during the current period.

### – *Gross profit percentage*

The gross profit percentage of the Group during the six months ended 30th September 2006 decreased from 43.5% to 34.0% compared to the prior comparative period because of the decrease in the number of projects undertaken by Grand Cycle and a decrease in gross profit margins for HL95. Certain of Grand Cycle's expenses are fixed in nature and are allocated to projects undertaken by Grand Cycle in determining the gross profit. Grand Cycle's gross profit margin declined given the decrease in the number of projects undertaken in the current period and the fixed nature of these expenses. HL95's gross profit percentage declined because of a shift in revenue sharing arrangements among telephone operators, service providers and content providers in the IVRS/SMS industries where the telephone operators and content providers obtained a higher share of revenue and service providers like HL95 took a smaller share of the revenue. Service providers like HL95 must work with telephone operators and content providers in providing IVRS/SMS services to consumers and consumers pay a fee for accessing such content.

### – *Other income*

Included in other income for the six months ended 30th September 2006 was a gain on change in fair value of convertible bonds of HK\$3,957,000. The Company issued US\$55 million and US\$15 million, zero coupon convertible bonds at a par value of US\$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Group has adopted Hong Kong Accounting Standards ("HKAS") 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for the Bonds. The Bonds are carried at fair value at the balance sheet date and the changes in fair value of the Bonds between 31st March 2006 and 30th September 2006 are recognised in the income statement during the six months ended 30th September 2006. Apart from the gain on change in fair value of convertible bonds, other income of HK\$11,192,000 (2005: HK\$772,000) principally comprised of interest income earned on bank balances.

## Management Discussion and Analysis *(continued)*

### – *Administrative expenses*

Included in the administrative expenses for the six months ended 30th September 2006 was share option expense of HK\$722,000 (2005: HK\$13,034,000). Share option expense represents a non-cash expense recorded by the Group in accordance with the requirements of Hong Kong Financial Reporting Standards (“HKFRS”) 2 Share-based Payment. Under HKFRS 2 the fair value of share options granted to directors and employees of the Group are determined at the date of grant of the share options. Such fair value is expensed over the period from the date of grant of the share options to the date when the share options become exercisable. The Group recognised a share option expense of HK\$13,034,000 in the period ended 30th September 2005 because the fair value of 152.6 million options were expensed in that period. During the period ended 30th September 2006, the Company did not issue any new options and only the fair value of 10.2 million options were expensed in the current period.

Other administrative expenses for the six months ended 30th September 2006 was HK\$69,471,000 as compared with HK\$61,925,000 for the six months ended 30th September 2005. The increase was mainly due to headcount, rental expenses and consulting fees to cope with the development of the PIATS platform and planned rollout of PIATS.

### – *Share of (loss) profit of an associate*

The share of (loss) profit of an associate represents the share of results of a 30%-owned associate, 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited) (“Dongfang Customs”), a joint venture with the PRC Customs Department and China Telecom, engaged in electronic customs processing and other electronic government services. The share of loss of Dongfang Customs was HK\$173,000 for the six months ended 30th September 2006 as compared with the share of profit of HK\$6,894,000 for the six months ended 30th September 2005. Dongfang Customs used to have three main sources of revenue: electronic port project development, sales of SIM cards and readers, and sales of value-added cards. During the current period, Dongfang Customs has shifted its focus to concentrate on its SIM cards and readers, and value-added cards businesses as its electronic port projects have been completed in March 2006. SIM card and readers are used by customers to assess the system for electronic custom filing and declaration. Value-added cards are purchased by the customers to recharge the value for the use of SIM cards. The management of Dongfang Customs believe that the SIM cards and readers, and value-added cards businesses provide a stable revenue stream and profitability in the long-term. Because of this shift in focus, the project development revenue decreased by HK\$14.9 million while the revenues of sales of SIM cards and readers, and value-added cards increased by HK\$15.2 million during the current period. Dongfang Customs has adopted a new strategy in the current period to be directly involved in the sales of SIM cards and readers (rather than through other suppliers) and charge less for the SIM cards and reader in order to increase the number of customers in using electronic custom filing and declaration. Selling and administration expenses also increased because of the increased business promotion, headcount and rental expenses to cope with the expansion in the SIM cards and readers, and value-added cards businesses. As a result, the short-term profit suffered in exchange for a larger customer base and long-term growth and profitability.

### – *Profit before interest, taxes, depreciation and amortisation*

Profit before interest, taxes, depreciation and amortisation for the six months ended 30th September 2006 was HK\$8,442,000 as compared with HK\$22,145,000 for the six months ended 30th September 2005. The Group recorded a decrease in profit before interest, taxes, depreciation and amortisation because of the decline in projects for Grand Cycle, a decline in margins for HL95, and a loss incurred by Dongfang Customs as explained above.

## Management Discussion and Analysis *(continued)*

– *Net (loss) profit attributable to shareholders*

For the six months ended 30th September 2006, net loss attributable to shareholders was HK\$687,000 as compared with a profit of HK\$9,525,000 in the previous comparative period.

– *(Loss) earnings per share*

Basic loss per share was 0.02 cents as compared with the basic earnings of 0.29 cents per share for the previous comparative period. The diluted loss per share for the six months ended 30th September 2006 was 0.13 cents as compared with the diluted earning per share of 0.28 cents for the six months ended 30th September 2005.

### Significant Investment and Capital Expenditure

On 30th May 2006 the Group entered into an ordering document and agreement with Oracle in which the Group acquired database management software and middleware from Oracle. The contract sum consisted of the license fees and the support fees of RMB88,088,000 (or US\$10,959,000). License fees were paid for obtaining the unlimited deployment right of Oracle database management software and middleware. Support fees were paid for technical support on the database management software and middleware. The Group paid the US\$10,959,000 on 31st May 2006. The Oracle database management software and middleware was recorded as property, plant and equipment on the consolidated balance sheet as at 30th September 2006.

### Financial Resources, Liquidity and Foreign Exchange Exposures

The financial positions of the Group as at 30th September 2006 and the corresponding comparative figures as at 31st March 2006 are summarised as follows:

	<b>30th September 2006 HK\$'000</b>	31st March 2006 HK\$'000
Current assets	<b>689,802</b>	817,722
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	<b>490,210</b>	592,978
– debtors	<b>132,668</b>	153,135
Current liabilities	<b>85,115</b>	118,350
– including short-term bank loans	<b>21,609</b>	11,760
Current ratio (current asset/current liabilities)	<b>8.10</b>	6.91
Quick ratio (Bank balances and cash & debtors/current liabilities)	<b>7.32</b>	6.30
Shareholders' equity	<b>347,853</b>	337,765
Convertible bonds	<b>539,552</b>	547,420
Gearing ratio (bank loans & convertible bonds/shareholders' equity)	<b>161.32%</b>	165.55%

## Management Discussion and Analysis *(continued)*

Bank balances and cash decreased by 17.3% from HK\$592,978,000 as at 31st March 2006 to HK\$490,210,000 as at 30th September 2006 as the amount has been invested in the development of the PIATS platform.

As at 30th September 2006, trade debtors aged over 12 months were HK\$5,878,000 (31st March 2006: HK\$3,673,000), most of which were related to system integration and software development business. The payment and aging of the trade debtors for computer system integration and software development business are in accordance with the payment term of these long-term contracts.

Bank loans on the consolidated balance sheets as at 30th September 2006 and 31st March 2006 were the Group's share of HL95's bank loans which were short-term in nature, denominated in Renminbi and repayable within one year, and carried interest at prevailing market rates.

As at 30th September 2006, the current ratio improved to 8.10 from 6.91 as at 31st March 2006, and the quick ratio also improved to 7.32 from 6.30.

The Group's gearing ratio decreased from 165.55% as at 31st March 2006 to 161.32% as at 30th September 2006 mainly because of a decrease of HK\$3,957,000 in fair value of the convertible bonds and a conversion of US\$500,000 of the Bonds into shares during the six months ended 30th September 2006.

The Group's operations and transactions are principally located in the People's Republic of China (the "PRC"). Other than the Bonds which are denominated in US dollars and the bank balances most of which are placed in fixed deposits and liquid investments denominated in US dollars, other assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi. The Directors believe that there will not be material fluctuation in the exchange rate of US dollars against Hong Kong dollars, the reporting currency, in the foreseeable future, and the gradual and slight increase in the exchange rate of Renminbi against Hong Kong dollars would result in exchange gain for the Group as the net assets of Group's operating subsidiaries and jointly controlled entities in PRC are denominated in Renminbi. Therefore, the operations of the Group are not subject to significant exchange rate risk.

## Business Review

The Group is an integrated information and content service provider, emphasizing on innovation as well as seeking ways to apply the latest information technology to provide unique information service to the PRC governmental departments, manufacturers and consumers. The Group's major clients are sizable and prestigious PRC manufacturers. Our information service will also expedite the development of small to medium size manufacturers. As a result, the Group has received strong support from the PRC government.

- **CCIT**

CCIT, a joint venture among the Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ"), China Telecom and the Group, is principally engaged in the provision of product quality supervision and enforcement information for the relevant PRC authorities through the operation of PIATS; the provision of product information to the manufacturers from the manufacture to the distribution and sale of the product; the provision of a simple, convenient and efficient way for the consumers to enquire product information, and check whether the products are counterfeit products or products with poor quality; and the provision of an interactive channel for the consumers to report counterfeit products or products with poor quality. CCIT has established a leading position in the PRC information service sector by providing manufacturers and consumers with these information value-added services.

## Management Discussion and Analysis *(continued)*

At the end of 2005, CCIT launched PIATS in Hebei province as a pilot project and received positive response from manufacturers and consumers. During the current period, CCIT was still in the start-up phase but also extended the promotion of PIATS to other provinces and received very good response, particularly in Guangdong and Henan provinces. CCIT has obtained strong support from government departments such as AQSIQ and State Administration of Industries and Commerce ("SAIC"). In March 2006, CCTV1 and CCTV 2, the most authoritative government channels in the PRC, announced the success of PIATS in Hebei province and the nation-wide roll out of PIATS. In July 2006, an important signing ceremony was held at The Great Peoples' Hall in Beijing where the 128 top domestic brand name manufacturers such as Haier, Moutai Liquor, Wuliangye Liquor, Tsingtao Beer, Shineway Group, Hainan Coconut Palm coconut juice, etc signed up for PIATS. In the same month, the Group announced a strategic partnership with Oracle to develop the PIATS database and platform. In August 2006, AQSIQ and SAIC issued measures to give incentives to manufacturers that join PIATS and shopping centres/supermarkets that install PIATS terminals. Good track records in PIATS are considered favourably in applying for various government certifications such as well-known countrywide brand, exemption from government quality inspection, etc. Government would also simplify the procedures for licence renewal if the manufacturers have a good PIATS track record. In the same month, AQSIQ also issued a list of major shopping centres and supermarkets in major cities across China to install the PIATS terminals. By September 2006, over 6,300 manufacturers across China have signed up for PIATS and over 170 shopping centres and supermarkets have signed agreements to install PIATS terminals.

During the current period, the scope of PIATS business also extended to drugs. In April 2006, the State Food and Drug Administration ("SFDA") approved the use of PIATS platform for two kinds of controlled drugs: anaesthetics and mental disorder drugs. In July 2006, the Group has signed a partnership arrangement with Microsoft to develop a PIATS platform specifically for drugs. In November 2006, after reviewing the success in using PIATS for the initial two controlled drugs, SFDA decided to extend the scope of the use of PIATS for all types of controlled drugs.

### *Future prospect*

Since the launch of PIATS, CCIT has experienced positive response from manufacturers, consumers, AQSIQ, SAIC, SFDA and other government departments. Senior government officials have provided tremendous support for PIATS since it reduces counterfeit products and protects consumers, manufacturers and intellectual property rights. In the coming months, the Group will deploy more terminals to major shopping centres and supermarkets in major cities across China and continue to sign up manufacturers to join PIATS, especially in the pharmaceutical, tobacco and liquor industries. Given that there are no other companies that can provide a similar service as PIATS and the strong government support, the Directors believe there is great potential for PIATS.

- **HL95**

HL95 is a nationwide telecommunications/information value-added services ("VAS") company in the PRC and is licensed by the Ministry of Industries and Information on the provision of SMS, IVRS and other telecom services in the PRC. HL95 provides IVRS services through both fixed telephone line network and mobile phone network, and SMS services through the mobile phone network (both in collaboration with the telecom operators) which covers the whole country. HL95 offers governmental, commercial and entertainment information through its SMS and IVRS services. HL95 also provides other telecommunication/information VAS such as IP phone service and customer care call centres.

## Management Discussion and Analysis *(continued)*

### *Future prospect*

HL95 intends to enrich its service varieties and plans to work with more content providers, government departments and large corporation to provide more telecommunication/information VAS to ensure a stable growth for its existing businesses. With the appropriate licenses and its technical infrastructure, HL95 is considering launching a nationwide hotline number service to corporate clients if suitable funding is available. The service is similar to the 1-800 service in the US. Also, as an important platform for the Group, HL95 enables the Group to promote the information services of PIATS. For example, CCIT, in providing the PIATS service, uses HL95's platform to enable consumers anywhere in the PRC to enquire product information by HL95's IVRS and SMS systems. The Directors believe that HL95 has good potential since the information services or content generated from the existing business or new business of the Group can be offered nation-wide using HL95's platform.

- **Dongfang Customs**

Dongfang Customs, a joint venture with the PRC Customs Department and China Telecom, is engaged in electronic customs processing and other electronic government services. Dongfang Customs provides customs filing and declaration, identity authentication, online payments, electronic customs tax and foreign exchange filings, billing and other customs related services. Dongfang Customs' users principally include manufacturers and import/export corporations. Currently, Dongfang Customs has around 300,000 users. Users are principally charged a time-based telecommunication fee for accessing the network platform.

### *Future prospect*

The PRC government has been encouraging manufacturers and import/export corporations to perform the customs declaration processing electronically as it not only speeds up the customs declaration procedures but also helps minimising the handling costs involved in the declaration. Given that there are only around 300,000 users, and China is the manufacturing base for the world, the Directors believe that there is great potential for Dongfang Customs to increase its users base. In addition, the Group anticipates that the number of users will increase in line with the economic growth of the PRC. In the six months ended 30th September 2006, Dongfang Customs has began to take a more active role in marketing its services to manufacturers and import/export corporations by advertising in magazines and concentrating its efforts in the sales of SIM cards and readers (by lowering their prices and directly handling the sales instead of using third parties) which are required by users to access the electronic customs declaration system, and sales of value-added cards.

- **Grand Cycle**

Grand Cycle is engaged in system integration and software development.

### *Future prospect*

Grand Cycle will continue to expand its system integration and software development business and provide the corporations and customers with professional technical solutions.

## Management Discussion and Analysis *(continued)*

### Employees and Remuneration Policies

The numbers of full-time employees of the Company and its subsidiaries, HL95, CCIT and Dongfang Customs as at 30th September 2006 are detailed as follows:

Locations	Entities			
	The Company and its subsidiaries	HL95 (49%-owned jointly controlled entity)	CCIT (50%-owned jointly controlled entity)	Dongfang Customs (30%-owned associate)
- Hong Kong	19	-	-	-
- The PRC	56	1,547	103	405
Total	75	1,547	103	405

Total staff costs (excluding share option expense) of the Group for the six months ended 30th September 2006 were HK\$30,994,000 in which HK\$18,534,000 and HK\$3,206,000 were the portions attributable to the Group in HL95 and CCIT respectively. All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

The Group's policy is to maintain a competitive pay structure and employees are rewarded on a performance related basis.

The Group has also set up share option schemes pursuant to which employees of the Group may be granted options to subscribe for the Company's shares at their absolute discretion. The subscription price, exercise period and the number of options to be granted are determined in accordance with the prescribed terms of the schemes. During the six months ended 30th September 2006, no share options were granted to employees or other eligible persons.

Hong Kong  
13th December, 2006

## Additional Information

### Warrants

During the six months ended 30th September 2006, the Company's outstanding 550,645,247 warrants entitled the holders thereof to subscribe for ordinary shares of HK\$0.01 each at an initial exercise price of HK\$2.40 per share, payable in cash and subject to adjustment, at any time up to 17th September 2006.

During the same period, 5 warrants were exercised. The balance of 550,645,242 warrants expired on 17th September 2006.

### Share option schemes

At the Annual General Meeting of the Company held on 30th August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") under which the Directors of the Company may, at their discretion, invite Directors and employees of the Company or its subsidiaries and other eligible persons as defined in the New Scheme to subscribe for shares in the Company subject to terms and conditions stipulated therein. On the same date, the share option scheme approved by the shareholders on 28th May 1998 (the "Old Scheme") was terminated such that no further options shall be offered but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect. Details of the movement of the share options granted under the Old Scheme and New Scheme during the period are set out below:

	Date of Grant	Exercise Price HK\$	Exercise period	At 1st April 2006	Number of Options			At 30th September 2006
					Granted during the period	Lapsed during the period	Exercised during the period	
<b>Directors</b>								
Mr. Wang Jun	23.03.2005	3.175	23.03.2006 to 23.03.2015	10,000,000	-	-	-	10,000,000 <sup>2</sup>
	23.03.2005	3.175	23.03.2007 to 23.03.2015	10,000,000	-	-	-	10,000,000 <sup>2</sup>
	23.03.2005	3.175	23.03.2008 to 23.03.2015	10,000,000	-	-	-	10,000,000 <sup>2</sup>
Ms. Chen Xiao Ying	13.07.2000	0.990	13.01.2001 to 27.05.2008	21,000,000	-	-	-	21,000,000 <sup>1</sup>
	13.07.2000	0.990	13.07.2001 to 27.05.2008	21,000,000	-	-	-	21,000,000 <sup>1</sup>
	13.07.2000	0.990	13.07.2002 to 27.05.2008	28,000,000	-	-	-	28,000,000 <sup>1</sup>
	24.06.2003	0.322	10.09.2004 to 23.06.2013	30,000,000	-	-	-	30,000,000 <sup>2</sup>
	24.06.2003	0.322	10.03.2005 to 23.06.2013	30,000,000	-	-	-	30,000,000 <sup>2</sup>
	24.06.2003	0.322	10.09.2005 to 23.06.2013	30,000,000	-	-	-	30,000,000 <sup>2</sup>
Mr. Luo Ning	24.06.2003	0.322	24.06.2004 to 23.06.2013	3,333,333	-	-	-	3,333,333 <sup>2</sup>
	24.06.2003	0.322	24.12.2004 to 23.06.2013	3,333,333	-	-	-	3,333,333 <sup>2</sup>
	24.06.2003	0.322	24.06.2005 to 23.06.2013	3,333,334	-	-	-	3,333,334 <sup>2</sup>

## Additional Information *(continued)*

### Share option schemes *(continued)*

	Date of Grant	Exercise Price HK\$	Exercise period	At 1st April 2006	Number of Options			At 30th September 2006
					Granted during the period	Lapsed during the period	Exercised during the period	
Mr. Sun Yalei	24.06.2003	0.322	24.06.2004 to 23.06.2013	3,333,333	-	-	-	3,333,333 <sup>9</sup>
	24.06.2003	0.322	24.12.2004 to 23.06.2013	3,333,333	-	-	-	3,333,333 <sup>9</sup>
	24.06.2003	0.322	24.06.2005 to 23.06.2013	3,333,334	-	-	-	3,333,334 <sup>9</sup>
Mr. Zhang Lian Yang	24.06.2003	0.322	24.06.2004 to 23.06.2013	5,000,000	-	-	-	5,000,000 <sup>9</sup>
	24.06.2003	0.322	24.12.2004 to 23.06.2013	5,000,000	-	-	-	5,000,000 <sup>9</sup>
	24.06.2003	0.322	24.06.2005 to 23.06.2013	5,000,000	-	-	-	5,000,000 <sup>9</sup>
				225,000,000	-	-	-	225,000,000
<b>Employees</b>	13.07.2000	0.990	13.07.2002 to 27.05.2008	200,000	-	-	-	200,000 <sup>A</sup>
	22.09.2004	1.230	22.09.2006 to 22.10.2006	1,800,000	-	1,200,000	-	600,000 <sup>**</sup>
	22.09.2004	1.230	22.09.2007 to 22.10.2007	1,800,000	-	1,200,000	-	600,000 <sup>**</sup>
	01.02.2005	2.255	05.01.2006 to 31.01.2015	1,000,000	-	-	-	1,000,000 <sup>**</sup>
	01.02.2005	2.255	05.01.2007 to 31.01.2015	1,000,000	-	-	-	1,000,000 <sup>**</sup>
	01.02.2005	2.255	05.01.2008 to 31.01.2015	1,000,000	-	-	-	1,000,000 <sup>**</sup>
	02.03.2005	2.525	02.09.2005 to 01.03.2015	700,000	-	333,334	-	366,666 <sup>9</sup>
	02.03.2005	2.525	02.09.2006 to 01.03.2015	700,000	-	333,333	-	366,667 <sup>9</sup>
	02.03.2005	2.525	02.03.2008 to 01.03.2015	700,000	-	333,333	-	366,667 <sup>9</sup>
	23.03.2005	3.175	23.03.2006 to 22.03.2015	200,000	-	-	-	200,000 <sup>9</sup>
	23.03.2005	3.175	23.03.2007 to 22.03.2015	200,000	-	-	-	200,000 <sup>9</sup>
	23.03.2005	3.175	23.03.2008 to 22.03.2015	200,000	-	-	-	200,000 <sup>9</sup>
	23.03.2005	3.175	23.03.2009 to 22.03.2015	200,000	-	-	-	200,000 <sup>9</sup>
	23.03.2005	3.175	23.03.2010 to 22.03.2015	200,000	-	-	-	200,000 <sup>9</sup>

## Additional Information *(continued)*

### Share option schemes *(continued)*

Date of Grant	Exercise Price HK\$	Exercise period	At 1st April 2006	Number of Options			At 30th September 2006
				Granted during the period	Lapsed during the period	Exercised during the period	
01.06.2005	2.175	01.06.2006 to 30.06.2006	2,333,333	-	2,333,333	-	- <sup>a</sup>
01.06.2005	2.175	01.06.2007 to 30.06.2007	2,333,333	-	-	-	2,333,333 <sup>a</sup>
01.06.2005	2.175	01.06.2008 to 30.06.2008	2,333,334	-	-	-	2,333,334 <sup>a</sup>
01.06.2005	2.175	01.06.2006 to 30.06.2006	600,000	-	600,000	-	- <sup>a</sup>
01.06.2005	2.175	01.06.2007 to 30.06.2007	600,000	-	400,000	-	200,000 <sup>a</sup>
01.06.2005	2.175	01.06.2008 to 30.06.2008	600,000	-	400,000	-	200,000 <sup>a</sup>
01.06.2005	2.175	01.06.2009 to 30.06.2009	600,000	-	400,000	-	200,000 <sup>a</sup>
01.06.2005	2.175	01.06.2010 to 30.06.2010	600,000	-	400,000	-	200,000 <sup>a</sup>
			19,900,000	-	7,933,333	-	11,966,667
			244,900,000	-	7,933,333	-	236,966,667

<sup>a</sup> Options under Old scheme

<sup>a</sup> Options under New scheme

\* The exercise of options and the number of Shares to be issued upon exercise of such options are subject to achievement of certain targeted turnover of HL95

Except for the share option schemes, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company nor their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Additional Information *(continued)*

### Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries or its holding companies were a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period under review or at any time during the six months ended 30th September 2006.

### Directors' Interests or Short Positions in Equity Securities

As at 30th September 2006, the Directors and their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

	Shares (Corporate interests)	Number of shares/underlying shares held		Aggregate interest
		Share options (Personal interest) <i>(note2)</i>	Equity Derivative <i>(note3)</i>	
Mr. Wang Jun		30,000,000	–	30,000,000
Ms. Chen Xiao Ying <i>(note 1)</i>	784,937,030	160,000,000	–	944,937,030
Mr. Luo Ning	–	10,000,000	–	10,000,000
Mr. Sun Yalei	–	10,000,000	–	10,000,000
Mr. Zhang Lian Yang	–	15,000,000	–	15,000,000
	784,937,030	225,000,000	–	1,009,937,030

#### Notes:

1. The interest in these shares and underlying shares of the Company were held by Uni-Tech International Group Limited, a wholly owned subsidiary of 21CN Corporation. 21CN Corporation is owned as to 99.5% by Pollon Internet Corporation, a company wholly owned by Ms. Chen Xiao Ying.
2. Particulars of interests of the Directors in the share options of the Company are set out in the section headed "Share Option Schemes" above.
3. All interests in underlying shares of the Company were long positions and they represented interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price of HK\$2.40 per share. The warrants expired on 17th September 2006.

Save as disclosed above, none of the Directors nor any chief executive of the Company has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO or were recorded in the register maintained under section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange as at 30th September 2006.

## Additional Information *(continued)*

### Substantial Shareholders' Interest or Short Positions in Equity Securities

As at 30th September 2006, the following parties (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

Name	Nature of interest	Number of Shares held <i>(note(c))</i>	Equity Derivative <i>(note(c))</i>	Total Interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited <i>(note(a))</i>	Beneficial owner	784,937,030	–	784,937,030	23.70
21CN Corporation <i>(note(a))</i>	Interest of controlled corporation	784,937,030	–	784,937,030	23.70
Pollon Internet Corporation <i>(note(a))</i>	Interest of controlled corporation	784,937,030	–	784,937,030	23.70
CITIC Group ["CITIC"] <i>(note(b))</i>	Interest of controlled corporation	807,998,000	–	807,998,000	24.40

(a) The interest in these shares were held by Uni-Tech International Group Limited, which is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 99.5% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying, Executive Vice Chairman of the Company.

(b) The interest in these shares of the Company were held by Road Shine Developments Limited as to 600,000,000 shares, Goldreward.com Ltd. as to 163,818,000 shares and Perfect Deed Co. Ltd. as to 44,180,000 shares, all of which are, directly or indirectly, controlled by CITIC Group.

(c) All interests in these shares of the Company were long positions. All interests in underlying shares of the Company were interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price of HK\$2.40 per Share. The warrants expired on 17th September 2006.

Save as disclosed above, there are no other interests or short positions in the Shares or underlying Shares of the Company as recorded in the register maintained under section 336 of SFO as at 30th September 2006.

### Connected Transactions

During the period under review, the Group entered into certain connected transactions, as defined in Chapter 14A of the Listing Rules which are also related party transactions, references to which are set out in note 15 of the condensed consolidated financial statements.

## **Additional Information** *(continued)*

### **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 period under review.

### **Interim Dividends**

The Board of Directors resolved that no interim dividend be declared for the six months period ended 30th September 2006.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

The Company has not redeemed any listed securities of the Company during the period under review. Neither the Company nor any of its subsidiaries has purchased or sold any listed securities of the Company during the period under review.

### **Compliance with the Code on Corporate Governance Practices**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the period under review, except for the deviations from code provisions A.4.1, A.4.2 and E.1.2 of the Code as described below.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office. However, the non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All directors except the Chairman of the Company are subject to retirement by rotation pursuant to the Company's Bye-Laws. According to the Company's Bye-Laws, one-third of the directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office at each annual general meeting. The relevant provisions of the Company's Bye-Laws will be reviewed and amendment will be proposed if necessary, to ensure full compliance with code provision A.4.2 of the Code.

Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend annual general meetings. The annual general meeting of the Company on 27th August 2006 had not been held in full compliance with this code provision. The meeting was however conducted in a good and proper manner.

### **Adoption of Code of Conduct Regarding Directors' Securities Transactions**

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standards set out in the Model Code.

### **Audit Committee**

For the period from 1st April 2006 to 30th September 2006, the Audit Committee comprises three independent non-executive Directors, namely Mr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Liu Hongru and Mr. Hui was the Chairman of the Audit Committee. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30th September 2006.

Hong Kong  
13th December, 2006

## Condensed Consolidated Income Statement

For the six months ended 30th September 2006

	Note	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	3	<b>162,660</b>	192,361
Cost of sales and services		<b>(107,316)</b>	(108,713)
Gross profit		<b>55,344</b>	83,648
Other income	4	<b>15,149</b>	772
Distribution costs		<b>(6)</b>	(10)
Administrative expenses		<b>(70,193)</b>	(74,959)
Share of result of an associate	5	<b>(173)</b>	6,894
Finance costs		<b>(281)</b>	(249)
(Loss) profit before taxation	6	<b>(160)</b>	16,096
Taxation	7	<b>(3,005)</b>	(6,898)
(Loss) profit for the period		<b>(3,165)</b>	9,198
Attributable to:			
Equity holders of the Company		<b>(687)</b>	9,525
Minority interests		<b>(2,478)</b>	(327)
		<b>(3,165)</b>	9,198
		<b>HK cents</b>	HK cents
(Loss) earnings per share	8		
Basic		<b>(0.02)</b>	0.29
Diluted		<b>(0.13)</b>	0.28

## Condensed Consolidated Balance Sheet

	30th September 2006 (Unaudited) HK\$'000	31st March 2006 (Audited) HK\$'000
<i>Note</i>		
<b>Non-current assets</b>		
Property, plant and equipment	162,749	69,698
Interest in an associate	5 86,212	86,387
Loan receivable	9 25,959	25,664
Available-for-sale investments	9,279	7,737
	<b>284,199</b>	189,486
<b>Current assets</b>		
Inventories	1,436	1,532
Amounts due from customers for contract work	21,098	30,468
Debtors and prepayments	10 177,058	192,744
Bank balances and cash	490,210	592,978
	<b>689,802</b>	817,722
<b>Current liabilities</b>		
Creditors and accruals	11 61,958	97,633
Taxation payable	1,548	8,957
Short-term bank loans	21,609	11,760
	<b>85,115</b>	118,350
<b>Net current assets</b>	<b>604,687</b>	699,372
<b>Total assets less current liabilities</b>	<b>888,886</b>	888,858
<b>Non-current liabilities</b>		
Convertible bonds	12 539,552	547,420
<b>Net assets</b>	<b>349,334</b>	341,438
<b>Capital and reserves</b>		
Share capital	13 33,115	33,086
Reserves	314,738	304,679
<b>Equity attributable to equity holders of the Company</b>	<b>347,853</b>	337,765
<b>Minority interests</b>	<b>1,481</b>	3,673
<b>Total equity</b>	<b>349,334</b>	341,438

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th September 2006

	Share Capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Share options reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumul- ated losses (Unaudited) HK\$'000	Attributable to equity holders of the Company (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April 2006	33,086	417,555	19,215	78,108	3,621	23,921	11,851	(249,592)	337,765	3,673	341,438
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	6,142	-	-	-	6,142	286	6,428
Loss for the period	-	-	-	-	-	-	-	(687)	(687)	(2,478)	(3,165)
Total recognised income and expenses for the period	-	-	-	-	6,142	-	-	(687)	5,455	(2,192)	3,263
Recognition of equity-settled share based payments	-	-	-	-	-	722	-	-	722	-	722
Lapse of share options	-	-	-	-	-	(1,837)	-	1,837	-	-	-
Issue of shares on conversion of convertible bonds	29	3,882	-	-	-	-	-	-	3,911	-	3,911
<b>At 30th September 2006</b>	<b>33,115</b>	<b>421,437</b>	<b>19,215</b>	<b>78,108</b>	<b>9,763</b>	<b>22,806</b>	<b>11,851</b>	<b>(248,442)</b>	<b>347,853</b>	<b>1,481</b>	<b>349,334</b>
At 1st April 2005	33,044	416,190	19,215	78,108	1,094	11,931	9,136	(259,931)	308,787	7,294	316,081
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	3,944	-	-	-	3,944	(1,573)	2,371
Profit (loss) for the period	-	-	-	-	-	-	-	9,525	9,525	(327)	9,198
Total recognised income and expenses for the period	-	-	-	-	3,944	-	-	9,525	13,469	(1,900)	11,569
Recognition of equity-settled share based payments	-	-	-	-	-	13,034	-	-	13,034	-	13,034
Issue of shares on exercise of warrants	-	125	-	-	-	-	-	-	125	-	125
Issue of shares on exercise of share options	42	1,085	-	-	-	-	-	-	1,127	-	1,127
At 30th September 2005	33,086	417,400	19,215	78,108	5,038	24,965	9,136	(250,406)	336,542	5,394	341,936

## Condensed Consolidated Cash Flow Statement

For the six months ended 30th September 2006

	<b>2006</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2005 (Unaudited) HK\$'000
Net cash used in operating activities	<b>(15,967)</b>	(10,321)
Net cash used in investing activities	<b>(97,792)</b>	(13,906)
Net cash from financing activities	<b>8,920</b>	9,979
Decrease in cash and cash equivalents	<b>(104,839)</b>	(14,248)
Cash and cash equivalent at beginning of the period	<b>592,978</b>	136,266
Effect of foreign exchange rate changes	<b>2,071</b>	3,944
Cash and cash equivalent at end of the period	<b>490,210</b>	125,962
Analysis of cash and cash equivalents		
Bank balances and cash	<b>490,210</b>	127,019
Restricted bank deposits	-	(1,057)
	<b>490,210</b>	125,962

# Notes to the Condensed Consolidated Financial Statements

## 1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated interim financial statements are presented in Hong Kong dollars while the functional currency is Renminbi. The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a listed company in Hong Kong with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. The Group is an integrated information and content service provider. The principal activities of the Group comprise telecommunications and information valued-added services, the provision of Product Identification, Authentication and Tracking System ("PIATS"), and system integration and software development.

## 2. Basis of preparation and accounting policies

These condensed consolidated interim financial statements for the six months ended 30th September 2006 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed consolidated interim financial statements for the six months ended 30th September 2006 are unaudited and have been reviewed by the audit committee of the Company.

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

These condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31st March 2006. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31st March 2006 except as disclosed below.

During the six months ended 30th September 2006, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning on or after 1st December 2005, 1st January 2006 or 1st March 2006. The application of the new HKFRSs has had no material effect on the financial statements of the Group.

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)-INT 9	Reassessment of embedded derivatives <sup>3</sup>
HK(IFRIC)-INT 10	Interim financial reporting and impairment <sup>4</sup>

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

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

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

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

The directors of the Company anticipate that the application of the above new HKFRSs will have no material impact on the financial statements of the Group.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 3. Segmental information

#### *Business segments*

The Group is an integrated information and content service provider. For management purposes, the Group is organised into three operating divisions namely telecommunications/information value-added services, the provision of PIATS, and system integration and software development. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Telecommunications/information value-added services – provision of telecommunications/information value-added services
- PIATS business – operation of an exclusive platform for PIATS
- System integration and software development – provision of system integration and software development

Unallocated results represent corporate income and expenses. A summary of the business segments is set out as follows:

<b>Six months ended 30th September 2006</b>	<b>Telecom- munications/ information value-added services (Unaudited) HK\$'000</b>	<b>PIATS business (Unaudited) HK\$'000</b>	<b>System integration and software development (Unaudited) HK\$'000</b>	<b>Total (Unaudited) HK\$'000</b>
Turnover	150,958	5,691	6,011	162,660
Segment results	9,756	(2,550)	(1,774)	5,432
Interest income				11,192
Change in fair value of convertible bonds				3,957
Share option expense				(722)
Share of result of an associate				(173)
Finance costs				(281)
Unallocated corporate expenses				(19,565)
Loss before taxation				(160)
Taxation				(3,005)
Loss for the period				(3,165)

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 3. Segmental information *(Continued)*

#### *Business segments (Continued)*

Six months ended 30th September 2005	Telecom- munications/ information value-added services (Unaudited) HK\$'000	PIATS business (Unaudited) HK\$'000	System integration and software development (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Turnover	137,908	3,603	50,850	192,361
Segment results	14,148	1,492	21,962	37,602
Other income				192
Interest income				580
Share option expense				(13,034)
Share of result of an associate				6,894
Finance costs				(249)
Unallocated corporate expenses				(15,889)
Profit before taxation				16,096
Taxation				(6,898)
Profit for the period				9,198

#### *Geographical segments*

All business segments are primarily carried out in the PRC. Accordingly, a separate summary of geographical segment is therefore not presented.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 4. Other income

	Six months ended 30th September	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income from bank deposits	10,897	580
Interest income from loan receivable <i>(Note 9)</i>	295	–
Change in fair value of convertible bonds <i>(Note 12)</i>	3,957	–
Others	–	192
	<b>15,149</b>	772

### 5. Share of result of an associate

The Group recorded a share of net result from a 30%-owned associate, Dongfang Customs Technology Company Limited (“Dongfang Customs”).

### 6. (Loss) profit before taxation

	Six months ended 30th September	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Staff costs	31,716	43,102
– including share option expense of HK\$722,000 (2005: HK\$13,034,000) <i>(Note)</i>		
Depreciation	5,843	5,473
Operating lease rentals in respect of land and buildings	6,465	5,770

*Note:* Share option expense represents a non-cash expense recorded by the Group in accordance with the requirements of HKFRS 2 Share-based Payment. Under HKFRS 2 the fair value of share options granted to directors and employees of the Company are determined at the date of grant of the share options. Such fair value is expensed over the period from the date of grant of the share options to the date when the share options become exercisable.

The Group recognised expense of HK\$722,000 for the six months ended 30th September 2006 (2005: HK\$13,034,000) in relation to share options granted by the Company.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 7. Taxation

	Six months ended 30th September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
The charge comprises		
PRC Enterprise Income Tax		
The Company and subsidiaries	-	4,489
Jointly controlled entities	3,005	2,409
	<hr/>	<hr/>
	3,005	6,898
	<hr/>	<hr/>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The tax rate applicable for the subsidiaries and jointly controlled entities in the PRC ranges from 15% to 33%.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 8. (Loss) earnings per share

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	<b>(687)</b>	9,525
Change in fair value of convertible bonds	<b>(3,957)</b>	–
(Loss) earnings for the purposes of diluted (loss) earnings per share	<b>(4,644)</b>	9,525
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<b>3,308,784,183</b>	3,306,330,595
Effect of dilutive potential ordinary shares:		
Share options	–	155,159,637
Convertible bonds	<b>398,916,293</b>	–
Warrants	–	15,169
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<b>3,707,700,476</b>	3,461,505,401

The computation of diluted loss per share for the six months ended 30th September 2006 does not assume the exercise of the share options since their exercise would result in a decrease in loss per share.

### 9. Loan receivable

On 3rd March 2006, CITIC 21CN Telecom Company Limited (a wholly owned subsidiary of the Group), entered into loan agreements with China Credit Information Technology Company Limited ("CCIT") (a 50% owned jointly controlled entity of the Group) in which CITIC 21CN Telecom Company Limited granted a non-interest bearing and unsecured two-year loan of US\$6,900,000 to CCIT for the development of PIATS business.

As at 30th September 2006, the fair value of the Group's share of the loan receivable was HK\$25,959,000 (31st March 2006: HK\$25,664,000), determined based on the present value of the estimated future cash flows discounted using effective interest rate of 2.5%. Interest income of HK\$295,000 from the loan receivable is recognised in the income statement for the six months ended 30th September 2006.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 10. Debtors and prepayments

	<b>30th September 2006 (Unaudited) HK\$'000</b>	31st March 2006 (Audited) HK\$'000
Trade receivables	<b>110,613</b>	130,765
Other receivables <i>(Note)</i>	<b>22,055</b>	22,370
Deposits and prepayments	<b>44,390</b>	39,609
	<b>177,058</b>	192,744

*Note:* Other receivables included an interest free advance to Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") of the PRC, in order for AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK\$17,640,000). The amount is repayable on demand.

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

	<b>30th September 2006 (Unaudited) HK\$'000</b>	31st March 2006 (Audited) HK\$'000
0-90 days	<b>64,091</b>	100,808
90-180 days	<b>20,807</b>	20,281
180-360 days	<b>19,837</b>	6,003
Over 360 days	<b>5,878</b>	3,673
	<b>110,613</b>	130,765

The carrying amount of the Group's debtors at 30th September 2006 approximates to the corresponding fair value.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 11. Creditors and accruals

	<b>30th September 2006 (Unaudited) HK\$'000</b>	31st March 2006 (Audited) HK\$'000
Trade payables	<b>38,756</b>	65,859
Other payables and accruals	<b>23,202</b>	31,774
	<b>61,958</b>	97,633

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

	<b>30th September 2006 (Unaudited) HK\$'000</b>	31st March 2006 (Audited) HK\$'000
0-90 days	<b>21,855</b>	44,230
90-180 days	<b>3,089</b>	9,465
180-360 days	<b>4,684</b>	1,709
Over 360 days	<b>9,128</b>	10,455
	<b>38,756</b>	65,859

The carrying amount of the Group's creditors and accruals at 30th September 2006 approximates to the corresponding fair value.

### 12. Convertible bonds

The Company issued US\$55 million and US\$15 million zero coupon convertible bonds at a par value of US\$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Group has adopted HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for the Bonds. The Bonds are carried at fair value at the balance sheet date and the changes in fair value of the Bonds are recognised in the income statement.

During the six months ended 30th September 2006, a gain on change in fair value of the Bonds of HK\$3,957,000 is recognised in the income statement.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 13. Share capital

	Number of ordinary shares	HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each At 31st March 2006 and 30th September 2006	10,000,000,000	100,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each At 1st April 2005	3,304,375,996	33,044
Exercise of share options	4,200,004	42
Exercise of share warrants	52,417	–
At 31st March 2006	3,308,628,417	33,086
Exercise of share warrants	5	–
Conversion of convertible bonds	2,850,514	29
At 30th September 2006	3,311,478,936	33,115

### 14. Commitments

#### (a) Capital commitment

The Group has entered into an agreement with Hebei Television Station China to form a joint venture, with an intention to engage in, among others, development of digital television business, of which the Group will hold a 49% interest. The registered capital of the joint venture company will be RMB70,000,000 (equivalent to HK\$68,600,000), and the Group will contribute RMB34,300,000 (equivalent to HK\$33,614,000).

#### (b) Operating lease commitments

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	30th September 2006 (Unaudited) HK\$'000	31st March 2006 (Audited) HK\$'000
Within one year	9,069	11,330
In the second to fifth year inclusive	4,414	8,221
	<b>13,483</b>	19,551

Leases are negotiated for an average term of two years.

## Notes to the Condensed Consolidated Financial Statements *(continued)*

### 15. Related party transactions

The following is a summary of the significant related party transactions carried out in the normal course of the business activities of the Group during the period:

	Six months ended 30th September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
System integration and software development income <i>(note a)</i>	–	15,315
Telecommunications/information value-added services agency fee <i>(note b)</i>	<b>2,825</b>	2,982

*(a)* System integration and software development services are provided by a wholly owned subsidiary of the Group, Guangdong Grand Cycle Technology Company Limited, to two jointly controlled entities, Beijing Honglian 95 Information Industries Company Limited and CCIT. The services are conducted at terms as set out in the agreements entered into between the respective parties.

*(b)* The Group pays agency fee to China Telecommunications Corporation ("China Telecom"), a joint venture partner of the Group, for providing telecommunications/information value-added services through the network of China Telecom and receiving service charges from customers through China Telecom. China Telecom holds 28% direct equity interest in Dongfang Customs and 20% indirect equity interest in CCIT.

### 16. Litigation

During the period, no provision has been made in the financial statements in connection with the claim received from a former employee for damages arising from the Company's non-recognition of titles to 8,000,000 share options to subscribe for shares in the share capital of the Company in accordance with the alleged share option granted to the former employee under the share option scheme adopted by the Company dated 28th May 1998. The Company has consulted its lawyer and the lawyer has opined that the amount that can be claimed by the former employee would not exceed HK\$3,133,000, that the Company has a good prospect of a successful defense, and that the claim from the former employee is difficult to succeed.