

Interim Report 2005 / 2006



CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED
(Incorporated in Bermuda with limited liability)



Contents

2	Management Discussion and Analysis
8	Additional Information
	Financial Information
15	Condensed Consolidated Income Statement
16	Condensed Consolidated Balance Sheet
17	Condensed Consolidated Cash Flow Statement
18	Condensed Consolidated Statement of Changes in Equity
19	Notes to the Condensed Consolidated Financial Statements



Management Discussion and Analysis

Financial Review

The key financial figures of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2005 and the comparative figures of the corresponding period in year 2004 were summarized as follows:

	For the six months ended		Growth rate %
	30th September		
	2005 HK\$'000	2004 HK\$'000	
Turnover	192,361	125,890	+52.8
Gross profit	83,648	55,107	+51.8
Gross profit percentage	43.5%	43.8%	
Net profit attributable to equity holders of the Company	9,525	8,974	+6.1
Earnings before interest and tax and major non-cash items (depreciation, amortization and share option expense)	34,852	21,679	+60.8
Earnings before interest and tax and major non-cash items (depreciation, amortization and share option expense) per share			
– Basic *	HK1.05 cents	HK0.66 cents	+59.1
– Diluted *	HK1.01 cents	N/A	N/A

* Basic and diluted earnings before interest and tax and major non-cash items per share are calculated based on the weighted average number of 3,306,331,000 (2004: 3,282,353,000) shares and 3,461,505,000 (2004: Not applicable) shares, respectively, in issue during the period. Please refer to note 7 of the notes to the Condensed Consolidated Financial Statements for further details on the weighted average number of shares in issue during the period.

– *Turnover*

The increase was mainly due to the following reasons:

- (a) The operating results of 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) (“HL95”), a 49%-owned jointly controlled entity of the Group, were proportionately consolidated into the Group’s consolidated income statement. In current period, the Group’s share of the turnover of HL95 increased from HK\$109.8 million in last period to HK\$137.9 million in current period, representing a growth of 25.7%, primarily thanks to the increase in revenues from fixed-line interactive voice response system (“IVRS”) and short messaging services (“SMS”) as a result of the increasing popularity of the usage of IVRS and SMS in the People’s Republic of China (the “PRC”); and
- (b) Sales of network equipment increased by 311.2% from HK\$16.1 million in last period to HK\$66.2 million in current period as a result of the marketing efforts of the Group.

– *Gross profit percentage*

The gross profit percentage of the Group remained relatively stable at around 44% during the six months ended 30th September 2004 and 2005.



Management Discussion and Analysis *(continued)*

– *Net profit*

Despite the increase in share option expense for the period under review compared to last period, the Group still experienced a slight increase in net profit. If the impact of the share option expense was excluded, the Group in fact recorded a significant growth in its net profit in current period and the reasons for which are explained under “Earnings before interest and tax and major non-cash expenses (amortization, depreciation and share option expense) below.

– *Earnings before interest and tax and major non-cash expenses (amortization, depreciation and share option expense) (both absolute amount and per share basis)*

The Group recorded a significant improvement in earnings before interest and tax and major non-cash expenses both in terms of absolute amount and per share basis in current period because of the following reasons:

(a) Increase in turnover as explained above; and

(b) The Group recorded a share of net profit of HK\$6.90 million from a 30%-owned associate, 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited) (“Dongfang Customs”), which has become an associate of the Group since 31st March 2005.

Significant Investment and Capital Expenditure

On 26th August 2005, CITIC 21CN DIGITAL TELEVISION AND MOVIES LIMITED (“CITIC 21CN DIGITAL”), an indirectly wholly-owned subsidiary of the Company, entered into a joint venture agreement with 河北電視台 (Hebei Television Station China) (“Hebei TV”) (the “JV Agreement”) pursuant to which Hebei TV and CITIC 21CN DIGITAL agree to establish a joint venture company (the “JV Company”) which will be engaged in, inter alia (i) development of digital television and multi services technology platform; (ii) development of new digital television technology; (iii) distribution, sales and leasing of set-top boxes; and (iv) acquisition of program contents and set up of program content library for digital television.

The JV Company will be owned as to 51% by Hebei TV and 49% by CITIC 21CN DIGITAL. Upon the establishment of the JV Company, it will become a jointly controlled entity of the Group.

Pursuant to the JV Agreement, the registered capital of the JV Company will be RMB70,000,000 (equivalent to approximately HK\$67,308,000), 51% of which or RMB35,700,000 (equivalent to approximately HK\$34,327,000) is to be contributed by Hebei TV in the form of intangible and tangible assets, and 49% or RMB34,300,000 (equivalent to approximately HK\$32,981,000) by CITIC 21CN DIGITAL in the form of cash.



Management Discussion and Analysis *(continued)*

Financial Resources, Liquidity and Foreign Exchange Exposures

The financial positions of the Group as at 30th September 2005 and the corresponding comparative figures as at 31st March 2005 are summarized as follows:

	30th September 2005 HK\$'000	31st March 2005 HK\$'000
Current assets	344,355	306,614
– including cash and bank balances (mainly denominated in Hong Kong dollars and Renminbi)	125,962	136,266
Current liabilities	155,909	133,065
– including short-term bank loans	20,560	11,583
Current ratio (current asset/current liability)	2.21	2.30
Shareholders' equity	336,541	308,787
Gearing ratio (bank loans/shareholders' equity)	6.11%	3.75%

Cash and bank balances decreased by 7.6% from HK\$136.3 million as at 31st March 2005 to HK\$126.0 million as at 30th September 2005. The decrease in cash and bank balances was mainly due to the acquisition of system hardware and software by HL95 for updating its information systems in view of its increase in business scale. Out of HK\$126.0 million, HK\$33.0 million is earmarked for contribution to the registered capital of the JV Company by CITIC 21CN DIGITAL, and HK\$76.5 million is earmarked for working capital of HL95, Quality Supervision Information Technology Co Ltd. ("QSIT"), and CITIC 21CN Telecom Company Limited ("CITIC 21CN Telecom").

As at 30th September 2005, trade debtors aged over 12 months were HK\$34.0 million, all were related to system integration and software development business. The payment and the aging of the trade debtors for system integration and software development business is in accordance with the payment term of these long term contracts.

All bank loans of the Group as at 30th September 2005 were short-term in nature, denominated in Renminbi and repayable within one year, and carried interests at prevailing market rates. Out of HK\$20.6 million, HK\$4.1 million of which was utilized by the system integration and software development business and was secured by bank deposits of HK\$5.0 million. The remaining balance of HK\$16.5 million bank loans were attributable to HL95 and guaranteed by the other shareholder of HL95.

The current ratio of the Group remained relatively stable as at 30th September 2005 and 31st March 2005.

The Group's gearing ratio increased from 3.75% as at 30th September 2004 to 6.11% as at 30th September 2005 mainly due to the increase in business scale of the Group and more bank loans were borrowed as working capital.

The Group's operation and transactions are principally located in the PRC and all 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 Renminbi in the foreseeable future and the operations of the Group are not subject to significant exchange rate risk.



Management Discussion and Analysis *(continued)*

Business Review

The Group has received strong support from the CITIC Group in cultivating its business development. Leveraging on its relationship with the CITIC Group, the Group has been able to secure various information technology and telecommunication/information value-added service (“VAS”) businesses with the PRC government authorities as further elaborated below.

- **HL95**

HL95 is a nationwide telecommunication VAS company in the PRC and is licensed by the relevant PRC government authorities on the provision of SMS and IVRS services in the PRC. HL95 is a telecommunication VAS provider (non-telecom operator) which provides IVRS services through both fixed telephone line network and mobile phone network (in collaboration with fixed line and mobile network owners) with the coverage of the whole country which the Directors consider is a unique competitive advantage in developing its telecommunication VAS business. HL95 offers governmental, commercial and entertainment contents.

Future prospect

With existing nationwide network coverage, HL95 plans to expand its services geographically in the PRC. HL95 also intends to enrich its service varieties. HL95 plans to work with more government authorities and large corporation to provide more comprehensive ranges of government and business related VAS. At the same time, HL95 will further enhance the services provided in respect of call centres, multimedia message system (“MMS”) and wireless application protocol (“WAP”) services to its customers.

In addition, HL95 provides QSIT, a 50%-owned jointly controlled entity, and Dongfang Customs with a mass platform in tapping into the daily life of individuals and corporates in the PRC. Leveraging on the network of HL95, the coverage of QSIT and Dongfang Customs has been greatly enhanced to provide nationwide coverage. Furthermore, with the access to the Government’s invaluable databases coupled with HL95’s nationwide network coverage, the Group has a solid foundation for future growth.

- **Dongfang Customs**

Dongfang Customs is engaged in the business of operating a sole network platform in the PRC for accessing the China Electronic Customs’ dedicated network for electronic customs processing and other electronic government services. It also engages in the provision of information technology support to the aforementioned China Electronic Customs’ dedicated network. Through its operation of the sole network platform for accessing the China Electronic Customs’ dedicated network, Dongfang Customs provides services to users of China Electronic Customs on customs declaration, identity authentication, online payments, billing and customs related services. Dongfang Customs’ users include manufacturers, import and export corporations, government agencies, insurance companies, and logistics companies. Users are principally charged a time-based telecommunication fee for accessing the network platform.

The PRC government has been encouraging corporates to perform the customs declaration electronically as it not only speeds up the customs declaration procedures but also helps minimise the handling costs involved in the declaration.



Management Discussion and Analysis *(continued)*

Future prospect

The Group anticipates that the number of users will increase in line with the economic growth of the PRC.

Leveraging on Dongfang Customs' contact to corporates, together with the nationwide telecommunication network coverage of HL95, the Group intends to provide more trade related VAS to Dongfang Customs' corporate customers. The business volumes of Dongfang Customs have close relationship with the PRC economy. With the tremendous development potential of the PRC markets and ongoing investments to the country from different parts of the globe, the Directors are of the view that the future prospects of Dongfang Customs look promising.

- **QSIT**

QSIT is principally engaged in the authentication service for products manufactured in the PRC through the operation of an exclusive platform for product identification, authentication & tracking system ("PIATS") which in turn provides anti-forgery enhancement service, trans-shipment information service, market research, promotion service and customer care to customers and other marketing related services. PIATS can access the databank of 中華人民共和國國家質量監督檢驗檢疫總局信息中心 (Information Centre of General Administration of Quality Supervision, Inspection and Quarantine of the PRC) ("AQSIQ") on products manufactured in the PRC. Under PIATS, every product coming through will be given a unique code while the marketing and logistics information of such product will be constantly fed back to a centralised database. The information of a product's specifications as well as its logistics record will form a reference on whether a product is genuine. A consumer who is in doubt of a product can check its authenticity through various telecommunication channels such as mobile phone, fixed line phone, internet or enquiry terminals at shopping centres.

The revenue sources of QSIT come from collecting product authentication service fees from both product manufacturers and consumers.

Forgeries have been considered as a factor discouraging Chinese and foreign corporations to invest in their products' research and development in the PRC. Brand strategy has been a concern to many corporations operating in the PRC. From the services to be provided by QSIT, the Directors believe that consumers will have a reliable reference on what they buy is genuine. Improvement in intellectual property protection will enhance oversea investors' interest in investing in the PRC.

Future prospect

The Directors believe PIATS will be met with strong demand from the consumers and manufacturers alike due to the rampant forgeries in the PRC. Also, with the support of AQSIQ, QSIT has experienced strong growth in the number of domestic manufacturers joining PIATS since the second half of the 2005 calendar year, and the Directors believe that the PIATS business will continue to grow rapidly with the strong support of the government in the near to mid term.

Just like Dongfang Customs, the business volumes of PIATS have close relationship with the PRC economy. With the continuing prosperity of the PRC economy, the Directors are optimistic about the future prospects of PIATS.



Management Discussion and Analysis *(continued)*

- **CITIC 21CN Telecom (Formerly known as Grand Cycle International Limited)**

CITIC 21CN Telecom engages in system integration and software development.

Future prospect

CITIC 21CN Telecom will continue to provide its technical expert services to both other business units of the Group and third party customers.

- **Hebei TV**

Hebei TV is in the process of formation.

Future prospect

The Group plans to participate in the PRC's national project to digitalize all television broadcasting in the PRC by year 2010 and thus entered into the JV Agreement. The Directors consider that, leveraging on the Group's business network in the PRC and its expertise in information technology and PRC media-related business, and together with the promising prospects of digital television business in the PRC, the formation of the JV Company will further expand the Group's business coverage in the PRC media industry and earning base, and enhance the Group's profitability. The Group plans to expand the scope of such business to other provinces in the future if appropriate.

Employees and Remuneration Policies

The numbers of full-time employees of the Company and its subsidiaries, HL95, QSIT and Dongfang Customs as at 30th September 2005 are detailed as follows:

Location	The Company and its subsidiaries	Entities		
		HL95 (49%-owned jointly controlled entity)	QSIT (49%-owned jointly controlled entity)	Dongfang Customs (30%-owned associate)
- Hong Kong	14	-	-	-
- The PRC	44	1,498	60	274
Total	58	1,498	60	274

Total staff costs of the Group for the period were HK\$65,359,000 (including share option expense of HK\$13,034,000) of which HK\$41,606,000 and HK\$2,076,000 were the portions attributable to the Group in HL95 and QSIT 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 2005, a total of 11,000,000 share options were granted to 5 employees and other eligible persons.



Additional Information

Warrants

The Company has issued warrants during the year ended 31st March 2005 which entitles the holder thereof to subscribe for one share at an exercise price of HK\$2.40 per share. During the period, 52,417 warrants were exercised. At the balance sheet date, the Company had 550,645,247 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 550,645,247 additional shares of HK\$0.01 each.

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 2005	Granted during period*	Number of options		At 30th September 2005
					Lapsed during period	Exercised during period [#]	
Directors							
Mr. Wang Jun	23.3.2005	3.175	23.3.2006 to 23.3.2015	10,000,000	-	-	10,000,000 ⁹
	23.3.2005	3.175	23.3.2007 to 23.3.2015	10,000,000	-	-	10,000,000 ⁹
	23.3.2005	3.175	23.3.2008 to 23.3.2015	10,000,000	-	-	10,000,000 ⁹
Ms. Chen Xiao Ying	13.7.2000	0.9900	13.1.2001 to 27.5.2008	21,000,000	-	-	21,000,000 ^A
	13.7.2000	0.9900	13.7.2001 to 27.5.2008	21,000,000	-	-	21,000,000 ^A
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	28,000,000	-	-	28,000,000 ^A
Mr. Luo Ning	24.6.2003	0.3220	10.9.2004 to 23.6.2013	30,000,000	-	-	30,000,000 ⁹
	24.6.2003	0.3220	10.3.2005 to 23.6.2013	30,000,000	-	-	30,000,000 ⁹
	24.6.2003	0.3220	10.9.2005 to 23.6.2013	30,000,000	-	-	30,000,000 ⁹
Mr. Luo Ning	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	-	-	3,333,333 ⁹
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	-	-	3,333,333 ⁹
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	-	-	3,333,334 ⁹



Additional Information *(continued)*

	Date of grant	Exercise price (HK\$)	Exercise period	Number of options				
				At 1st April 2005	Granted during period *	Lapsed during period	Exercised during period #	At 30th September 2005
Mr. Sun Yalei	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	-	-	-	3,333,333 ^a
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	-	-	-	3,333,333 ^a
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	-	-	-	3,333,334 ^a
Mr. Zhang Lian Yang	24.6.2003	0.3220	24.6.2004 to 23.6.2013	5,000,000	-	-	-	5,000,000 ^a
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	5,000,000	-	-	-	5,000,000 ^a
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	5,000,000	-	-	-	5,000,000 ^a
				225,000,000	-	-	-	225,000,000
<hr/>								
Ex-Director								
Dr. Liu Xiaoping	24.6.2003	0.3220	24.6.2004 to 23.6.2013	-	-	-	-	- ^a
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	-	-	-	-	- ^a
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	1,666,668	-	-	1,666,668	- ^a
				1,666,668	-	-	1,666,668	-
<hr/>								
Employees								
	13.7.2000	0.9900	13.1.2001 to 27.5.2008	-	-	-	-	- ^A
	13.7.2000	0.9900	13.7.2001 to 27.5.2008	60,000	-	-	60,000	- ^A
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	340,000	-	-	140,000	200,000 ^A
	20.11.2000	0.7920	20.11.2001 to 27.5.2008	2,400,000	-	-	-	2,400,000 ^A
	20.11.2000	0.7920	20.11.2002 to 27.5.2008	2,400,000	-	-	-	2,400,000 ^A
	20.11.2000	0.7920	20.11.2003 to 27.5.2008	3,200,000	-	-	-	3,200,000 ^A
	24.6.2003	0.3220	24.6.2004 to 23.6.2013	2	-	-	2	- ^a
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	2	-	-	2	- ^a
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	2,333,332	-	-	2,333,332	- ^a
	22.9.2004	1.2300	22.09.2005 to 22.10.2005	4,333,334	-	866,666	-	3,466,668 ^{a*}
	22.9.2004	1.2300	22.09.2006 to 22.10.2006	4,333,334	-	866,666	-	3,466,668 ^{a*}
	22.9.2004	1.2300	22.09.2007 to 22.10.2007	4,333,332	-	866,668	-	3,466,664 ^{a*}
	01.2.2005	2.255	06.01.2006 to 31.01.2015	1,333,333	-	1,333,333	-	- ^a
	01.2.2005	2.255	06.01.2007 to 31.01.2015	1,333,333	-	1,333,333	-	- ^a
	01.2.2005	2.255	06.01.2008 to 31.01.2015	1,333,334	-	1,333,334	-	- ^a



Additional Information *(continued)*

Date of grant	Exercise price (HK\$)	Exercise period	At 1st April 2005	Granted during period *	Number of options		At 30th September 2005
					Lapsed during year	Exercised during period #	
01.2.2005	2.255	05.01.2006 to 31.01.2015	1,000,000	-	-	-	1,000,000 ^{∆*}
01.2.2005	2.255	05.01.2007 to 31.01.2015	1,000,000	-	-	-	1,000,000 ^{∆*}
01.2.2005	2.255	05.01.2008 to 31.01.2015	1,000,000	-	-	-	1,000,000 ^{∆*}
2.3.2005	2.525	02.09.2005 to 01.03.2015	2,766,666	-	1,066,666	-	1,700,000 [∂]
2.3.2005	2.525	02.09.2006 to 01.03.2015	2,766,666	-	1,066,666	-	1,700,000 [∂]
2.3.2005	2.525	02.03.2008 to 01.03.2015	2,766,668	-	1,066,668	-	1,700,000 [∂]
2.3.2005	2.525	02.03.2006 to 01.03.2015	200,000	-	-	-	200,000 [∂]
2.3.2005	2.525	02.03.2007 to 01.03.2015	200,000	-	-	-	200,000 [∂]
2.3.2005	2.525	02.03.2008 to 01.03.2015	200,000	-	-	-	200,000 [∂]
2.3.2005	2.525	02.03.2009 to 01.03.2015	200,000	-	-	-	200,000 [∂]
2.3.2005	2.525	02.03.2010 to 01.03.2015	200,000	-	-	-	200,000 [∂]
10.3.2005	2.925	10.03.2006 to 09.03.2015	1,000,000	-	-	-	1,000,000 [∂]
10.3.2005	2.925	10.03.2007 to 09.03.2015	1,000,000	-	-	-	1,000,000 [∂]
23.3.2005	3.175	23.03.2006 to 22.03.2015	200,000	-	-	-	200,000 [∂]
23.3.2005	3.175	23.03.2007 to 22.03.2015	200,000	-	-	-	200,000 [∂]
23.3.2005	3.175	23.03.2008 to 22.03.2015	200,000	-	-	-	200,000 [∂]
23.3.2005	3.175	23.03.2009 to 22.03.2015	200,000	-	-	-	200,000 [∂]
23.3.2005	3.175	23.03.2010 to 22.03.2015	200,000	-	-	-	200,000 [∂]
1.6.2005	2.175	01.06.2006 to 30.06.2006	-	2,333,333	-	-	2,333,333 [∂]
1.6.2005	2.175	01.06.2007 to 30.06.2007	-	2,333,333	-	-	2,333,333 [∂]
1.6.2005	2.175	01.06.2008 to 30.06.2008	-	2,333,334	-	-	2,333,334 [∂]
1.6.2005	2.175	01.06.2006 to 30.06.2006	-	800,000	-	-	800,000 [∂]
1.6.2005	2.175	01.06.2007 to 30.06.2007	-	800,000	-	-	800,000 [∂]
1.6.2005	2.175	01.06.2008 to 30.06.2008	-	800,000	-	-	800,000 [∂]
1.6.2005	2.175	01.06.2009 to 30.06.2009	-	800,000	-	-	800,000 [∂]
1.6.2005	2.175	01.06.2010 to 30.06.2010	-	800,000	-	-	800,000 [∂]
			43,033,336	11,000,000	9,800,000	2,533,336	41,700,000
			269,700,004	11,000,000	9,800,000	4,200,004	266,700,000

∆ Options under Old Scheme

∂ 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



Additional Information *(continued)*

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.

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 2005.

Directors' Interests in Equity Securities

As at 30th September 2005, 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 interest)	Number of shares/underlying shares held		Aggregate interests
		Share options (Personal interest) (note 2)	Equity Derivative (note 3)	
Mr. Wang Jun	–	30,000,000	–	30,000,000
Ms. Chen Xiao Ying (note 1)	784,937,030	160,000,000	130,822,838	1,075,759,868
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	130,822,838	1,140,759,868

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 95% 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 are long positions and they represent interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price of HK\$2.40 per share (subject to adjustment) exercisable during the period from 18th March 2005 to 17th September 2006.



Additional Information *(continued)*

Directors' Interests in Equity Securities *(Continued)*

Save as disclosed above, none of 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 would 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.

Substantial Shareholders' Interest in Equity Securities

As at 30th September 2005, 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 (note (c))	Equity derivative (note (c))	Total Interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited (note (a))	Beneficial owner	784,937,030	130,822,838	915,759,868	27.68
21CN Corporation (note (a))	Interest of controlled corporation	784,937,030	130,822,838	915,759,868	27.68
Pollon Internet Corporation (note (a))	Interest of controlled corporation	784,937,030	130,822,838	915,759,868	27.68
CITIC Group ("CITIC") (note (b))	Interest of controlled corporation	807,998,000	134,666,333	942,664,333	28.49

Notes:

- (a) The interest in these shares and underlying shares were held by Uni-Tech International Group Limited, which is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 95% 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 and underlying shares of the Company were held by Road Shine Developments Limited as to 700,000,000 shares, Goldreward.com Ltd. as to 191,121,000 shares and Perfect Deed Co. Ltd. as to 51,543,333 shares, all of which are, directly or indirectly, controlled by CITIC Group.
- (c) All interests in shares and underlying shares of the Company are long positions. All interests in underlying shares of the Company are interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price of HK\$2.40 per Share (subject to adjustment) exercisable during the period from 18th March 2005 to 17th September 2006.



Additional Information *(continued)*

Substantial Shareholders' Interest in equity securities *(Continued)*

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 2005.

Connected Transactions

During the period under review, the Group entered into certain connected transactions, as defined in Chapter 14 of the Listing Rules which are also related party transactions, references to which are set out in note 13 to the condensed consolidated financial statements.

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.

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

The Company has not redeemed any of its listed securities of the Company during the period under review. Neither the Company nor any of its subsidiaries has purchased or sold any of 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 of 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 Chairman of the Board did not attend the annual general meeting of the Company held on 19th August 2005 as he had another business engagement.



Additional Information *(continued)*

Adoption of Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 of 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 standard set out in the Model Code.

Audit Committee

For the period from 1st April 2005 to 10th November 2005, the Audit Committee comprises the then three independent non-executive Directors, namely Mr. Tsui Yiu Wa, Alec, Mr. Zhang Jian Ming and Mr. Liu Hongru and Mr. Tsui was the Chairman of the Audit Committee. For personal reason, Mr. Tsui resigned from independent non-executive Director and Chairman of Audit Committee effective 11th November 2005. On 16th November 2005, Mr. Hui Ho Ming, Herbert, JP was appointed as an independent non-executive Director of the Company and Chairman of Audit Committee. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30th September 2005.



Condensed Consolidated Income Statement

For the six months ended 30th September 2005

	Note	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000 (As restated)
Turnover	3	192,361	125,890
Cost of sales and services		(108,713)	(70,783)
Gross profit		83,648	55,107
Other revenues	4	772	15,844
Distribution costs		(10)	(51)
Administrative and other operating expenses		(61,925)	(54,024)
Share option expense*		(13,034)	(2,668)
Operating profit	5	9,451	14,208
Finance costs		(249)	(788)
Share of profit of an associate		6,894	–
Profit before taxation		16,096	13,420
Taxation	6	(6,898)	(3,761)
Profit for the period		9,198	9,659
Attributable to:			
Equity holders of the Company		9,525	8,974
Minority interests		(327)	685
		9,198	9,659
		HK cents	HK cents
Earnings per share	7		
Basic		0.29	0.27
Diluted		0.28	N/A

* Represented a non-cash expense recorded by the Group commencing in current period in accordance with the requirement of a new accounting standard - Hong Kong Financial Reporting Standard ("HKFRS") 2 "Share-based Payment" which requires all companies adopting Hong Kong Financial Reporting Standards in their preparation of financial statements to apply this new standard with effect from the annual accounting period beginning on or after 1st January 2005.



Condensed Consolidated Balance Sheet

	30th September 2005 (Unaudited) HK\$'000	31st March 2005 (Audited) HK\$'000
<i>Note</i>		
Non-current assets		
Property, plant and equipment	59,840	57,187
Interest in an associated company	83,530	76,560
Goodwill	1,359	–
Other investments	8,322	7,728
Other non-current assets	438	1,057
	153,489	142,532
Current assets		
Inventories and contracts in progress	4,332	3,954
Debtors and prepayments	214,040	166,143
Taxation recoverable	21	251
Cash and bank balances	125,962	136,266
	344,355	306,614
Current liabilities		
Creditors and accruals	130,421	118,305
Taxation payable	4,928	3,177
Short-term loans	20,560	11,583
	155,909	133,065
Net current assets	188,446	173,549
Total assets less current liabilities	341,935	316,081
Capital and reserves		
Equity attributable to the Company's equity holders		
Share capital	33,086	33,044
Reserves	303,455	275,743
	336,541	308,787
Minority interests	5,394	7,294
	341,935	316,081



Condensed Consolidated Cash Flow Statement

For the six months ended 30th September 2005

	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Net cash from/(used in) operating activities	(10,321)	630
Net cash used in investing activities	(13,906)	(15,827)
Net cash from/(used in) financing activities	9,979	(22,225)
Decrease in cash and cash equivalents	(14,248)	(37,422)
Cash and cash equivalents at the beginning of the period	136,266	225,586
Effect of foreign exchange rate changes	3,944	23
Cash and cash equivalents at the end of the period	125,962	188,187
Analysis of cash and cash equivalents		
Cash and bank balances	127,019	189,244
Restricted bank deposits	(1,057)	(1,057)
	125,962	188,187



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th September 2005

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April 2005, as previously stated	33,044	416,190	78,108	1,094	-	9,136	(228,785)	308,787
Prior period adjustment in regards of employee share-based compensation	-	-	-	-	12,861	-	(12,861)	-
At 1st April 2005, as restated	33,044	416,190	78,108	1,094	12,861	9,136	(241,646)	308,787
Change in exchange rate	-	-	-	3,944	-	-	-	3,944
Prior period adjustment in respect of employee share-based compensation	-	-	-	-	13,034	-	-	13,034
Issue of new shares	42	1,569	-	-	-	-	-	1,611
Warrant issue expenses	-	(359)	-	-	-	-	-	(359)
Profit for the period	-	-	-	-	-	-	9,525	9,525
At 30th September 2005	33,086	417,400	78,108	5,038	25,895	9,136	(232,121)	336,542
At 1st April 2004, as previously stated	32,823	354,745	78,108	2,265	-	5,658	(255,516)	218,083
Prior period adjustment in regards of employee share-based compensation	-	-	-	-	3,971	-	(3,971)	-
At 1st April 2004, as restated	32,823	354,745	78,108	2,265	3,971	5,658	(259,487)	218,083
Change in exchange rate	-	-	-	23	-	-	-	23
Prior period adjustment in respect of employee share-based compensation	-	-	-	-	2,668	-	-	2,668
Issue of new shares	12	387	-	-	-	-	-	399
Realised exchange reserve on disposal of subsidiary	-	-	-	110	-	(65)	-	45
Transfer between reserves	-	(1,535)	-	1,535	-	-	-	-
Profit for the period	-	-	-	-	-	-	8,974	8,974
At 30th September 2004	32,835	353,597	78,108	3,933	6,639	5,593	(250,513)	230,192



Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements for the six months ended 30th September 2005 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.

These condensed consolidated financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31st March 2005 except that the Group has changed certain accounting policies following its adoption of new and revised HKASs and HKFRSs and has adopted the first time for the current period’s financial statements.

The changes to the Group’s accounting policies and the impact to the financial statements are set out in note 2 below.

The condensed consolidated interim financial statements for the six months ended 30th September 2005 are unaudited and have been reviewed by the audit committee of the Company.

2. Changes in accounting policies

Effect of adopting new HKFRSs

During the six months ended 30th September 2005, the Group adopted the new and revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	:	Presentation of Financial Statements
HKAS 2	:	Inventories
HKAS 7	:	Cash Flow Statements
HKAS 8	:	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	:	Events after the Balance Sheet Date
HKAS 16	:	Property, Plant and Equipment
HKAS 17	:	Leases
HKAS 21	:	The Effects of Changes in Foreign Exchange Rates
HKAS 23	:	Borrowing Costs
HKAS 24	:	Related Party Disclosures
HKAS 27	:	Consolidated and Separate Financial Statements
HKAS 28	:	Investments in Associates
HKAS 32	:	Financial Instruments: Disclosure and Presentation
HKAS 33	:	Earnings per Share
HKAS 39	:	Financial Instruments: Recognition and Measurement
HKFRS 2	:	Share-based Payment



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

2. Changes in accounting policies *(Continued)*

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 32, 33 and 39 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements. In summary:

HKAS 1 has affected the presentations of minority interests, share of net after-tax results of an associate and other disclosures.

HKASs 2, 7, 8, 10, 16, 17, 21, 23, 27, 28, 32, 33 and 39 had no material effect on the Group's financial statements.

HKAS 24 has expanded the definition of related parties to include key management of the Group.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st April 2005, the Group expenses the cost of share options granted to employees in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st April 2005 was expensed retrospectively in the income statement of the respective periods.

Following the adoption of HKFRS 2, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustment are summarized as follows:

(a) *Effect on opening balances of total equity at 1st April 2005*

Effect of new policy (Increase/(decrease))	Employee share-based compensation reserve (Unaudited) HK\$'000	Retained earnings (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Prior period adjustment:			
HKFRS 2 – Employee share option scheme	11,932	(11,932)	–
Total effect at 1st April 2005	11,932	(11,932)	–

(b) *Effect on opening balances of total equity at 1st April 2004*

Effect of new policy (Increase/(decrease))	Employee share-based compensation reserve (Unaudited) HK\$'000	Retained earnings (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Prior period adjustment:			
HKFRS 2 – Employee share option scheme	3,972	(3,972)	–
Total effect at 1st April 2004	3,972	(3,972)	–



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

2. Changes in accounting policies *(Continued)*

(c) Effect on profit after tax for the six months ended 30th September 2005 and 2004

Effect of new policy (Increase/(decrease))	Six months ended 30th September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Effect on profit after tax	(13,034)	(2,668)
	HK cents	HK cents
Effect on earnings per share		
Basic	(0.39)	(0.08)
Diluted	(0.38)	N/A

HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 but not vested on 1st April 2005.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations; and

HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis.



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

3. Segmental information

The principal activities of the Group are telecommunication/information value-added services which comprise telecommunication value-added services, system integration and software development, and product identification, authentication and tracking system business. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Unallocated results represent corporate income and expenses and all significant transactions among the companies comprising the Group have been eliminated.

A summary of the business segments is set out as follows:

	Telecommunication/ information value-added services		System integration and software development		Product identification, authentication and tracking system business		Corporate		Eliminations		Total	
	Six months ended 30th September		Six months ended 30th September		Six months ended 30th September		Six months ended 30th September		Six months ended 30th September		Six months ended 30th September	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(As restated)		(As restated)		(As restated)		(As restated)		(As restated)		(As restated)
Turnover	137,908	109,756	66,165	16,134	3,603	-	-	-	(15,315)	-	192,361	125,890
Segment results	14,148	16,947	31,030	(4,422)	1,492	-	(28,151)*	1,683 #	(9,068)	-	9,451	14,208
Finance costs											(249)	(788)
Share of profit of an associate											6,894	-
Profit before taxation											16,096	13,420
Taxation											(6,898)	(3,761)
Profit for the period											9,198	9,659
Minority interests	328	(686)	(1)	1	-	-	-	-	-	-	327	(685)
Profit attributable to shareholders of the Company											9,525	8,974

Since all customers under the business segments are primarily located in the People's Republic of China ("PRC"), a separate summary by geographical segment is therefore not presented.

* Included share option expense of HK\$13,034,000.

Included share option expense of HK\$2,668,000.



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

4. Other revenues

	Six months ended	
	30th September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bad debts recovered	–	10,000
Write back of long outstanding payables	–	5,250
Interest	580	123
Sundries	192	471
	772	15,844

5. Operating profit

	Six months ended	
	30th September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(As restated)
Operating profit is stated after crediting and charging the following:		
<i>Crediting</i>		
Amortisation of negative goodwill	–	656
<i>Charging</i>		
Cost of inventories sold and services provided	108,713	70,783
Depreciation	5,473	5,459
Loss on disposal of property, plant and equipment	–	42
Impairment of property, plant and equipment	18	–
Operating lease rental expense for land and buildings	5,770	4,241
Share option expense	13,034	2,668
Staff costs (included share option expense of HK\$13,034,000 (2004: HK\$2,668,000))	65,359	27,161



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

6. Taxation

	Six months ended	
	30th September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current (PRC)		
Company and subsidiaries	4,489	68
Jointly controlled entities	2,409	3,693
	6,898	3,761

No provision for Hong Kong profits tax has been made as there is no estimated assessable profit for the period. PRC taxation has been calculated on estimated assessable profit for the period at the rates of taxation prevailing in the PRC.

7. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to equity holders of HK\$9,525,000 (2004: profit of HK\$8,974,000) and on the weighted average number of 3,306,331,000 (six months ended 30th September 2004: 3,282,353,000) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September 2005 is based on the following:

	Number of Shares
	('000)
Weighted average number of shares for calculating basic earnings per share	3,306,331
Effect of dilutive potential shares	
Share options	155,159
Warrants	15
Weighted average number of shares for calculating diluted earnings per share	3,461,505

The diluted earnings per share for the six months ended 30th September 2004 was not presented as the exercise of the share options outstanding as at 30th September 2004 would not have a dilutive effect on the earnings per share.



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

8. Debtors and prepayments

	30th September 2005 (Unaudited) HK\$'000	31st March 2005 (Audited) HK\$'000
Trade debtors (note a)	146,548	123,938
Other debtors	67,492	13,653
Deposits and prepayments	–	28,552
	214,040	166,143

- (a) Trade debtors represent contract receivables, the payment terms of which are stated in the contracts and vary from one customer to another. The ageing analysis of trade debtors of the Group, net of provision for bad and doubtful debts and prepared based on the due dates according to terms of relevant contracts, is as follows:

	30th September 2005 (Unaudited) HK\$'000	31st March 2005 (Audited) HK\$'000
Not yet due	130	9,228
Below 3 months	101,118	64,336
4 to 6 months	5,973	23,705
7 to 9 months	4,507	4,495
10 to 12 months	803	3,923
Over 12 months	34,017	18,251
	146,548	123,938



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

9. Creditors and accruals

	30th September 2005 (Unaudited) HK\$'000	31st March 2005 (Audited) HK\$'000
Trade creditors (note a)	56,177	75,691
Other creditors and accruals	74,148	36,823
Dividend payable	96	5,791
	130,421	118,305

(a) The ageing analysis of the trade creditors of the Group, prepared in accordance with the dates of invoices, is as follows:

	30th September 2005 (Unaudited) HK\$'000	31st March 2005 (Audited) HK\$'000
Below 3 months	23,832	43,280
4 to 6 months	1,999	3,352
7 to 9 months	1,593	1,937
10 to 12 months	2,163	352
Over 12 months	26,590	26,770
	56,177	75,691



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

10. Share capital

	Shares of HK\$0.01 each	HK\$'000
Authorised:		
At 31st March 2005 and 30th September 2005	10,000,000,000	100,000
Issued and fully paid:		
At 31st March 2004	3,282,306,000	32,823
Exercise of share options	22,069,996	221
At 31st March 2005	3,304,375,996	33,044
Exercise of share warrants	52,417	–
Exercise of share options	4,200,004	42
At 30th September 2005	3,308,628,417	33,086

During the period, 4,200,004 employee share options were exercised by the eligible option holders at their respective subscription price between HK\$0.322 and HK\$0.990 for a total cash consideration of HK\$1,486,001 resulting in the issue of 4,200,004 new shares of HK\$0.01 each. During the period, 52,417 warrants were exercised at conversion price of HK\$2.40 for a total cash consideration of HK\$125,801 resulting in the issue of 52,417 new shares of HK\$0.01 each.

11. Commitments

(a) Capital commitment

As at 30th September 2005, the Group entered into an agreement with Hebei TV to form a joint venture (“JV Company”), with an intention to engage in, among others, development of digital television business, of which the Group will hold 49% interest. The registered capital of JV Company will be RMB70,000,000 (equivalent to HK\$67,308,000), and the Group will contribute RMB34,300,000 (equivalent to HK\$32,981,000).

As at 31st March 2005, the Group entered into an agreement with ACSIQ and China Huaxin Telecom to form a joint venture, QSIT, with an intention to engage in, among others, the authentication service for products manufactured in Mainland China, of which the Group will hold 50% interest. The registered capital of QSIT will be RMB60,000,000 (equivalent to HK\$56,604,000), and the Group has contributed RMB30,000,000 (equivalent to HK\$28,310,000) as at 31st March 2005. The Group has also agreed with ACSIQ that the Group will make an interest free advance to ACSIQ in order for ACSIQ to meet its share of the capital contribution to QSIT amounting to RMB18,000,000 (equivalent to HK\$16,981,000).



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

11. Commitments *(Continued)*

(b) Operating lease commitments

The future aggregate minimum lease rental expense under non-cancellable operating leases in respect of land and buildings is payable in the following years:

	30th September 2005 HK\$'000	31st March 2005 HK\$'000
Within one year	10,956	3,356
Two to five years	11,204	2,637
	22,160	5,993

12. Contingent Liabilities

As at 30th September 2005, the Group did not have material contingent liabilities.

13. 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 2005 HK\$'000	2004 HK\$'000
Computer system integration and software development income (note (a))	15,489	–
Purchase of certain interest of a jointly controlled entity	–	(3,028)
Service fee income for provision of technical and training support to CITIC Group	–	12,412

(a) Service fees were received from joint venture partners pursuant to contracts in respect of services for system integration and software development projects entered between a subsidiary of the Group and two jointly controlled entities.