CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 241

Interim Report 2007

Contents

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

Dr. 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, FCCA, FCPA

AUTHORISED REPRESENTATIVES

Ms. CHEN Xiao Ying
Mr. YEE Foo Hei, ACS, ACIS, FCCA

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suites 7001-7005,70/F.
Two International Finance Centre
8 Finance Street, Central
Hong Kong

STOCK CODE

241

LEGAL ADVISORS

Hong Kong

Tung & Co.

Bermuda

Appleby Spurling Hunter

AUDITORS

Deloitte Touche Tohmatsu
Certifited Public Accountants
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
Argyle House, 41A Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH REGISTERAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

CITIC Ka Wah Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Management Discussion and Analysis

Financial Review

The key financial figures of the Group for the six months ended 30th September 2007 and the comparative figures for the six months ended 30th September 2006 were summarised as follows:

	2007	2006	Change
	HK$'000	HK$'000	%
Turnover	**114,373**	162,660	(29.7)
Gross profit	**26,970**	55,344	(51.3)
Gross profit percentage	**23.6%**	34.0%	N/A
Other income	**12,882**	11,192	15.1
Administrative expenses (excluding staff costs)	**26,644**	38,477	(30.8)
Staff costs (excluding share option expense)	**32,359**	30,994	4.4
Share option expense	**2,162**	722	199.4
(Loss) gain on change in fair value of convertible bonds	**(8,294)**	3,957	N/A
Share of profit (loss) of an associate	**243**	(173)	N/A
(Loss) profit before interest, taxes, depreciation and amortisation, and after minority interests	**(21,516)**	8,442	N/A
(Loss) profit before interest, taxes, depreciation and amortisation, and other non-cash items (Note), and after minority interests	**(11,389)**	4,912	N/A
Net loss attributable to shareholders	**29,668**	687	4,218.5
Net loss attributable to shareholders before non-cash items (Note)	**19,541**	4,217	363.4
Loss per share			
Basic	**0.85 cents**	0.02 cents	4,150.0
Diluted	**N/A**	0.13 cents	N/A
Loss per share before non-cash items (Note)			
Basic	**0.56 cents**	0.13 cents	330.8
Diluted	**N/A**	N/A	N/A

Note: These non-cash items relate to loss on change in fair value of convertible bonds of HK$8,294,000 (2006: gain of HK$3,957,000), share option expense of HK$2,162,000 (2006: HK$722,000) arising from valuation of share options, and imputed interest income on loan receivable of HK$329,000 (2006: HK$295,000) arising from valuation of loan receivable.

Financial Review (continued)

Results

– *Turnover*

Turnover of the Group for the six months ended 30th September 2007 was HK$114,373,000, a decrease of 29.7% as compared with the turnover of HK$162,660,000 for the six months ended 30th September 2006. The decrease was mainly due to the following reasons:

(a) 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, is engaged in telecommunications/information value-added services. The Group's share of the turnover of HL95 for the six months ended 30th September 2007 decreased by 26.2% to HK$111,464,000 from HK$150,958,000 for the six months ended 30th September 2006. The Group's share of the turnover of HL95 comprised HK$33,566,000 (2006: HK$71,577,000) from short messaging services ("SMS"), HK$27,504,000 (2006: HK$34,748,000) from fixed-line interactive voice response system ("IVRS"), HK$19,899,000 (2006: HK$18,867,000) from mobile IVRS, HK$15,731,000 (2006: HK$17,112,000) from Internet-protocol ("IP") phone, HK$8,022,000 (2006: HK$3,304,000) from call centres, and HK$6,742,000 (2006: HK$5,350,000) from other value-added services. The decrease in revenue was mainly due to the decrease in SMS revenue and fixed-line IVRS revenue. SMS revenue decreased by 53.1% or HK$38,011,000 due to the policies changes implemented by China Mobile and China Unicom to regulate the SMS market since the second half of 2006. In June 2006, the Ministry of Information Industry promulgated new policy directives to address a number of issues, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development for the service provider industry. In July 2006, China Mobile implemented policies changes, such as requiring its users to subscribe to monthly packages for SMS/MMS services, therefore reducing the number of complaints by its users for accidentally downloading unwanted SMS/MMS contents, followed by the similar polices changes implemented by China Unicom in September 2006. These policies continued to have significant negative impacts on all service providers in the PRC, including HL95 in the current period. In May 2007, China Mobile took further actions, such as excluding HL95's and other service providers' contents from the embedded menus of mobile phones that are customised for China Mobile. Fixed-line IVRS revenue decreased by 20.8% to HK$27,504,000 due to increased marketing and promotion efforts by HL95's main fixed-line IVRS competitors China Netcom and China Telecom, and more content providers working with China Netcom and China Telecom since the beginning of 2007, which negatively affected HL95's market share. Increase in call centre revenue by 142.8% to HK$8,022,000 was due to expansion of the call centre business and included major accounts such as China Mobile Guangdong.

(b) 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT"), a 50%-owned jointly controlled entity of the Group, is engaged in the Product Identification, Authentication and Tracking System ("PIATS"). The Group's share of the revenue of CCIT for the six months ended 30th September 2007 decreased by 53.1% to HK$2,667,000 from HK$5,691,000 for the six months ended 30th September 2006. In the current period CCIT focused on building up the infrastructure for PIATS in order to satisfy the requirements of the recent government policies and procedures related to PIATS.

Financial Review (continued)

Results (continued)

– *Turnover (continued)*

(c) 廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited) ("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 2007 was HK$242,000 as compared with the turnover of HK$6,011,000 for the six months ended 30th September 2006. In the current period, management decided to scale down the operations of Grand Cycle due to the highly competitive nature and the long collection period inherent in the industry for providing system integration services to the telecom industry.

– *Gross profit percentage*

The gross profit percentage of the Group during the six months ended 30th September 2007 decreased to 23.6% from 34.0% during the six months ended 30th September 2006, because of decrease in gross profit margin for HL95 and increase in depreciation charge for the PIATS platform.

HL95's gross profit percentage declined because of higher share of IVRS/SMS revenue obtained by telecom operators and thus service providers like HL95 took a smaller share of the revenue. Service providers like HL95 must work with telecom operators in providing IVRS/SMS content services to consumers and consumers pay a fee for accessing such content. HL95's gross profit margin was also affected by the increased depreciation charge mainly due to the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan.

In the current period CCIT continued to build up the infrastructure for PIATS, resulting in increase in depreciation charge for the PIATS platform.

– *Other income*

Other income increased 15.1% to HK$12,882,000 for the six months ended 30th September 2007. Other income principally comprised interest income of HK$9,684,000 and change in fair value of held for trading investments of HK$2,627,000. In the six months ended 30th September 2006, other income principally comprised interest income of HK$11,192,000.

– *Administrative expenses (excluding staff costs)*

Administrative expenses excluding staff costs for the six months ended 30th September 2007 was HK$26,644,000, representing a decrease of 30.8% over HK$38,477,000 for the six months ended 30th September 2006. The decrease was due to the Group's efforts in controlling costs when revenue declined.

– *Staff costs (excluding share option expense)*

Staff costs excluding share option expense for the six months ended 30th September 2007 was HK$32,359,000, representing an increase of 4.4% over HK$30,994,000 for the six months ended 30th September 2006. The increase was mainly due to headcount to cope with the development of the PIATS platform and planned rollout of PIATS, and the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan.

Financial Review (continued)

Results (continued)

– *Share option expense*

Share option expense of HK$2,162,000 (2006: HK$722,000) 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. During the six months ended 30th September 2007, the Company issued 44 million new share options to employees of the Group, resulting in an increase in share option expense recognised by the Group.

– *Change in fair value of convertible bonds*

The Group recorded a loss on change in fair value of convertible bonds of HK$8,294,000 for the six months ended 30th September 2007 (2006: gain 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 change in fair value of the Bonds between 31st March 2007 and 30th September 2007 is recognised in the income statement during the six months ended 30th September 2007. The loss on change in fair value mainly represented an imputed interest on the Bonds.

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

The share of profit (loss) 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).

– *(Loss) profit before interest, taxes, depreciation and amortisation, and after minority interest*

Loss before interest, taxes, depreciation and amortisation, and after minority interest for the six months ended 30th September 2007 was HK$21,516,000, as compared with a profit of HK$8,442,000 for the six months ended 30th September 2006, because of the following major reasons:

(a) Decrease in turnover and gross profit, offset by decrease in administrative expenses as explained above; and

(b) Change in fair value of convertible bonds as explained above.

– *(Loss) profit before interest, taxes, depreciation and amortisation, and other non-cash items, and after minority interest*

Included in loss before interest, taxes, depreciation and amortisation and after minority interests are non-cash items comprising share option expense of HK$2,162,000 (2006: HK$722,000) arising from valuation of share options, loss on change in fair value of convertible bonds of HK$8,294,000 (2006: gain of HK$3,957,000) and imputed interest income on loan receivable of HK$329,000 (2006: HK$295,000) arising from valuation of loan receivable. If these non-cash items were excluded, the adjusted loss before interest, taxes, depreciation and amortisation and after minority interests would be HK$11,389,000 (2006: adjusted profit before interest, taxes, depreciation and amortisation and after minority interests: HK$4,912,000).

Financial Review (continued)

Results (continued)

– *Net loss attributable to shareholders*

Net loss attributable to shareholders for the six months ended 30th September 2007 was HK$29,668,000, as compared with HK$687,000 for the six months ended 30th September 2006, mainly because of decrease in turnover, gross profit and administrative expenses, and change in fair value of convertible bonds, as explained above.

– *Net loss attributable to shareholders before non-cash items*

Included in net loss attributable to shareholders are non-cash items comprising share option expense of HK$2,162,000 (2006: HK$722,000) arising from valuation of share options, loss on change in fair value of convertible bonds of HK$8,294,000 (2006: gain of HK$3,957,000) and imputed interest income on loan receivable of HK$329,000 (2006: HK$295,000) arising from valuation of loan receivable. If these non-cash items were excluded, the adjusted net loss attributable to shareholders would be HK$19,541,000 (2006: HK$4,217,000).

– *Loss per share*

Basic loss per share was HK0.85 cents for the six months ended 30th September 2007 as compared with a basic loss per share of HK0.02 cents for the six months ended 30th September 2006.

– *Loss per share before non-cash items*

Included in the calculation of loss per share are non-cash items comprising share option expense of HK$2,162,000 (2006: HK$722,000) arising from valuation of share options, loss on change in fair value of convertible bonds of HK$8,294,000 (2006: gain of HK$3,957,000) and imputed interest income on loan receivable of HK$329,000 (2006: HK$295,000) arising from valuation of loan receivable. If these non-cash items were excluded, the adjusted loss per share would be HK0.56 cents (2006: HK0.13 cents).

Management Discussion and Analysis (continued)

Financial Resources, Liquidity and Foreign Exchange Exposures

The financial positions of the Group as at 30th September 2007 and the corresponding comparative figures as at 31st March 2007 are summarised as follows:

	30th September 2007 HK$'000	31st March 2007 HK$'000
Current assets	**639,514**	672,584
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	**444,269**	453,984
– debtors	**82,092**	108,965
Current liabilities	**78,621**	81,065
– including short-term bank loans	**25,235**	12,373
Current ratio (current asset/current liabilities)	**8.13**	8.30
Quick ratio (bank balances and cash and debtors/current liabilities)	**6.69**	6.94
Shareholders' equity	**629,993**	318,240
Convertible bonds	**219,308**	543,765
Gearing ratio (bank loans and convertible bonds/shareholders' equity)	**38.82%**	174.75%

Bank balances and cash decreased by 2.1% from HK$453,984,000 as at 31st March 2007 to HK$444,269,000 as at 30th September 2007. The decrease in cash was principally due to the development of the PIATS project, offset by trade debtors recovered and new bank loans drawn during the six months ended 30th September 2007.

As at 30th September 2007, trade debtors aged over 12 months were HK$17,878,000 (31st March 2007: HK$16,429,000), most of which were related to system integration and software development business.

Bank loans on the consolidated balance sheets as at 30th September 2007 and 31st March 2007 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 2007, the current ratio was 8.13 (31st March 2007: 8.30), and the quick ratio was 6.69 (31st March 2007: 6.94).

Shareholders' equity increased from HK$318,240,000 as at 31st March 2007 to HK$629,993,000 as at 30th September 2007, mainly because of the conversion of US$41,000,000 of convertible bonds into shares, offset by net loss of the Group incurred during the six months ended 30th September 2007.

The Group's gearing ratio decreased from 174.75% as at 31st March 2007 to 38.82% as at 30th September 2007, because of conversion of US$41,000,000 of convertible bonds into shares during the six months ended 30th September 2007.

Financial Resources, Liquidity and Foreign Exchange Exposures (continued)

The Group's operations and transactions are principally located in the PRC. Other than the convertible bonds which are denominated in US dollars and the bank balances and cash most of which are placed in fixed deposits and liquid investments denominated in US dollars or Hong Kong 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 the 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, emphasising 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 sized 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 manufacturing 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 or safety; and the provision of an interactive channel for the consumers to report counterfeit products or products with poor quality or safety. CCIT has established a leading position in the PRC information service sector by providing manufacturers and consumers with these information value-added services.

Business Review (continued)

- **CCIT (continued)**

During the current period, CCIT was still in the start-up phase but has obtained strong support from government departments such as AQSIQ, State Administration of Industries and Commerce ("SAIC"), Ministry of Commerce ("MOC"), State Food and Drugs Administration ("SFDA") and Ministry of Agriculture ("MOA"). In July 2007, the State Council announced on its website 國務院關於加強食品等產品安全監督管理的特別規定 (State Council's Special Regulations to Strengthen the Supervision and Monitoring of Safety of Food and Other Products) which, amongst other things, requires manufacturers to be responsible for safety and quality of their products, and if the manufacturer's products do not meet the legal requirements, the manufacturer may lose its operating licence, be considered to be producing inferior or counterfeit goods, and be subject to legal actions. In September 2007, the website of AQSIQ announced that a Task Force on product quality and food safety under the State Council will strive to monitor products and food with the use of PIATS. The Task Force, with members from AQSIQ, MOC and SAIC, is planning to use PIATS to enforce a nationwide product tracking and authentication system in order to control the production, sales and distribution of products at all stages of production and distribution cycle. Mr. Li Changjiang, Vice Head of the Task Force and the Director of AQSIQ, announced that the PRC government will implement mandatory measures for those enterprises identified to use PIATS so that such enterprises will not be able to distribute their products in the wholesale and retail networks if they do not adopt the PIATS system. From September 2007, 28 major brands of bottled water in Beijing have started to use PIATS and by March 2008, all bottled water will adhere with a sticker with specific PIATS bar code to serve as an "electronic identification" to assure consumer confidence. In November 2007, it was announced in the Beijing Olympic Games website that all food products for the 2008 Beijing Olympic Games must be electronically monitored by PIATS. In December 2007, AQSIQ, SAIC and MOC jointly announced the requirement for 69 types of key products in 9 industries which require manufacturing permits (生產許可証) and the China Compulsory Product Certification ("CCC") (強制性產品認証) to mandatorily join PIATS and include the PIATS barcode on the product package as a measure to enhance the supervision and monitoring of product quality and food safety for products manufactured in the PRC, otherwise the manufacturers of these products cannot sell their products (details of which are set out in the Company's announcement dated 7th December 2007). Since the initial roll-out of PIATS to the date of the announcement for the interim results for the six months ended 30th September 2007, over 32,000 manufacturers across China have joined PIATS and over 500 million pieces of products attached with the PIATS barcodes have gone to the market.

In order to make PIATS more easily accessible by users across the country, PIATS enquiry services has been included in the nation-wide hotline/Directory Assistance Information Service 114, 116114 and 118114 of China Telecom and China Netcom after the signing of co-operation contracts with China Telecom and China Netcom. Moreover, the co-operation contracts with China Telecom and China Netcom cover the distribution of PIATS telephone terminals to be installed in the selected supermarkets, shops, farm product supply stations, hospitals and drug stores. Similar co-operation contract has also been signed with China Mobile.

The scope of PIATS business has also been extended to drugs. SFDA has approved the use of PIATS platform for initial two kinds of controlled drugs: anaesthetics and mental disorder drugs, and ultimately to extend the scope of the use of PIATS for all types of controlled drugs.

Business Review (continued)

- **CCIT (continued)**

  Future prospect

  Since the launch of PIATS, CCIT has experienced positive response from manufacturers, consumers, AQSIQ, SFDA, SAIC, MOC, MOA, other government departments and even at the State Council. Senior government officials have provided tremendous support for PIATS since it reduces counterfeit products, improve product safety and foods and drug safety, and protects consumers, manufacturers and intellectual property rights. In the coming months, the Group will continue to sign up manufacturers, distributors and retailers to join PIATS in accordance with the government policies to enhance the supervision and monitoring of product quality and food safety for products manufactured in the PRC. 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 telecommunications/information VAS such as IP phone service and customer care call centres services.

  Future prospect

  HL95 is expanding its IVRS products and has begun to work with radio stations nationwide for the IVRS related services since the third quarter of 2007. Following the co-operation contracts entered into with various financial institutions and large corporations recently, HL95 is now expanding its call centre capacity in Beijing, Shenzhen and Foshan. HL95 is also in advanced discussions with the largest outsourcing call centre operator in Australia to explore joint business opportunities in China. HL95 is an important platform for the Group since it 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 and call centres. The Directors believe that HL95 has good potential in the call centre industry and in working with radio stations to provide IVRS related services across China.

- **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 399,000 users. Users are principally charged a time-based telecommunication fee for accessing the network platform.

Business Review (continued)

- **Dongfang Customs (continued)**

  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 399,000 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. Since 2006, Dongfang Customs has taken 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.

  Having a unique advantage of electronic customs processing platform and growing users base, Dongfang Customs is now extending to other areas for future business development and is in the process of developing a nation-wide electronic logistics platform.

- **Grand Cycle**

  Grand Cycle is engaged in system integration and software development.

  Future prospect

  Grand Cycle will focus on the system integration and software development support for the rapid and continuing expansion of the businesses of HL95 and PIATS.

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 2007 are detailed as follows:

	Entities			
Location	**The Company and its subsidiaries**	**HL95 (49%-owned jointly controlled entity)**	**CCIT (50%-owned jointly controlled entity)**	**Dongfang Customs (30%-owned associate)**
– Hong Kong	14	–	–	–
– The PRC	33	1,731	78	482
Total	47	1,731	78	482

Employees and Remuneration Policies (continued)

Total staff costs of the Group for the six months ended 30th September 2007 were HK$34,521,000 in which HK$20,037,000 and HK$2,848,000 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 2007, 44,000,000 new share options were granted to employees of the Group.

Hong Kong
18th December 2007

Additional Information

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 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:–

				Number of options				
	Date of grant	Exercise price HK$	Exercise period	At 1st April 2007	Granted during the period	Lapsed during the period	Exercised during the period	At 30th September 2007
Directors								
Mr. Wang Jun	23.3.2005	3.175	23.3.2006 to 23.3.2015	10,000,000	–	–	–	10,000,000 ∂
	23.3.2005	3.175	23.3.2007 to 23.3.2015	10,000,000	–	–	–	10,000,000 ∂
	23.3.2005	3.175	23.3.2008 to 23.3.2015	10,000,000	–	–	–	10,000,000 ∂
Ms. Chen Xiao Ying	13.7.2000	0.990	13.1.2001 to 27.5.2008	21,000,000	–	–	–	21,000,000 Δ
	13.7.2000	0.990	13.7.2001 to 27.5.2008	21,000,000	–	–	–	21,000,000 Δ
	13.7.2000	0.990	13.7.2002 to 27.5.2008	28,000,000	–	–	–	28,000,000 Δ
	24.6.2003	0.322	10.9.2004 to 23.6.2013	30,000,000	–	–	–	30,000,000 ∂
	24.6.2003	0.322	10.3.2005 to 23.6.2013	30,000,000	–	–	–	30,000,000 ∂
	24.6.2003	0.322	10.9.2005 to 23.6.2013	30,000,000	–	–	–	30,000,000 ∂

Additional Information (continued)

Share option schemes (continued)

	Date of grant	Exercise price HK$	Exercise period	Number of options: At 1st April 2007	Granted during the period	Lapsed during the period	Exercised during the period	At 30th September 2007
Mr. Luo Ning	24.6.2003	0.322	24.6.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333 ∂
	24.6.2003	0.322	24.12.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333 ∂
	24.6.2003	0.322	24.6.2005 to 23.6.2013	3,333,334	–	–	–	3,333,334 ∂
Mr. Sun Yalei	24.6.2003	0.322	24.6.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333 ∂
	24.6.2003	0.322	24.12.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333 ∂
	24.6.2003	0.322	24.6.2005 to 23.6.2013	3,333,334	–	–	–	3,333,334 ∂
Mr. Zhang Lian Yang	24.6.2003	0.322	24.6.2004 to 23.6.2013	5,000,000	–	–	–	5,000,000 ∂
	24.6.2003	0.322	24.12.2004 to 23.6.2013	5,000,000	–	–	–	5,000,000 ∂
	24.6.2003	0.322	24.6.2005 to 23.6.2013	5,000,000	–	–	–	5,000,000 ∂
				225,000,000	–	–	–	225,000,000

Additional Information (continued)

Share option schemes (continued)

	Date of grant	Exercise price HK$	Exercise period	Number of options: At 1st April 2007	Granted during the period	Lapsed during the period	Exercised during the period	At 30th September 2007
Employees	13.7.2000	0.990	13.7.2002 to 27.5.2008	200,000	–	–	–	200,000 Δ
	22.9.2004	1.230	22.9.2007 to 22.10.2007	600,000	–	–	–	600,000 ∂*
	1.2.2005	2.255	5.1.2006 to 31.1.2015	1,000,000	–	(1,000,000)	–	– ∂*
	1.2.2005	2.255	5.1.2007 to 31.1.2015	1,000,000	–	(1,000,000)	–	– ∂*
	1.2.2005	2.255	5.1.2008 to 31.1.2015	1,000,000	–	(1,000,000)	–	– ∂*
	2.3.2005	2.525	2.9.2005 to 1.3.2015	366,666	–	–	–	366,666 ∂
	2.3.2005	2.525	2.9.2006 to 1.3.2015	366,667	–	–	–	366,667 ∂
	2.3.2005	2.525	2.3.2008 to 1.3.2015	366,667	–	–	–	366,667 ∂
	23.3.2005	3.175	23.3.2006 to 22.3.2015	200,000	–	–	–	200,000 ∂
	23.3.2005	3.175	23.3.2007 to 22.3.2015	200,000	–	–	–	200,000 ∂
	23.3.2005	3.175	23.3.2008 to 22.3.2015	200,000	–	–	–	200,000 ∂
	23.3.2005	3.175	23.3.2009 to 22.3.2015	200,000	–	–	–	200,000 ∂
	23.3.2005	3.175	23.3.2010 to 22.3.2015	200,000	–	–	–	200,000 ∂
	1.6.2005	2.175	1.6.2007 to 30.6.2007	2,333,333	–	(2,333,333)	–	– ∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	2,333,334	–	–	–	2,333,334 ∂

Additional Information (continued)

Share option schemes (continued)

Date of grant	Exercise price HK$	Exercise period	Number of options: At 1st April 2007	Granted during the period	Lapsed during the period	Exercised during the period	At 30th September 2007
1.6.2005	2.175	1.6.2007 to 30.6.2007	200,000	–	(200,000)	–	– ∂
1.6.2005	2.175	1.6.2008 to 30.6.2008	200,000	–	–	–	200,000 ∂
1.6.2005	2.175	1.6.2009 to 30.6.2009	200,000	–	–	–	200,000 ∂
1.6.2005	2.175	1.6.2010 to 30.6.2010	200,000	–	–	–	200,000 ∂
4.6.2007	2.500	4.6.2008 to 3.6.2017	–	13,200,000	(900,000)	–	12,300,000 ∂
4.6.2007	2.500	4.6.2009 to 3.6.2017	–	8,800,000	(600,000)	–	8,200,000 ∂
4.6.2007	2.500	after a trigger price of HK$8 or above until 3.6.2017	–	11,000,000	(750,000)	–	10,250,000 ∂
4.6.2007	2.500	after a trigger price of HK$12 or above until 3.6.2017	–	11,000,000	(750,000)	–	10,250,000 ∂
			11,366,667	44,000,000	(8,533,333)		46,833,334
			236,366,667	44,000,000	(8,533,333)	–	271,833,334

Δ 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.

Except for the share option schemes, at no time during the period was the Company or its subsidiaries a party to any arrangement 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 2007.

Directors' Interest or Short Position in Equity Securities

As at 30th September 2007, 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 (the "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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

	Number of shares/underlying shares held			
	Share (Corporate interests)	**Share options (Personal interest)** (note 2)	**Equity Derivative**	**Aggregate interest**
Mr. Wang Jun	–	30,000,000	–	30,000,000
Ms. Chen Xiao Ying (note 1)	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.

Additional Information (continued)

Directors' Interest or Short Position in Equity Securities (continued)

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 2007.

Substantial Shareholders' Interest or Short Positions in Equity Securities

As at 30th September 2007, 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	Equity Derivative	Total Interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited (note (a))	Beneficial owner	784,937,030	–	784,937,030	21.1125%
21CN Corporation (note (a))	Interest of controlled corporation	784,937,030	–	784,937,030	21.1125%
Pollon Internet Corporation (note (a))	Interest of controlled corporation	784,937,030	–	784,937,030	21.1125%
CITIC Group ("CITIC") (note (b))	Interest of controlled corporation	807,998,000	–	807,998,000	21.7328%

Notes:

(a) Uni-Tech International Group Limited 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) Road Shine Developments Limited, Goldreward.com Ltd. and Perfect Deed Co. Ltd. holds 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC Group.

Saved 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 2007.

Additional Information (continued)

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 16 of 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.

Interim Dividends

The Board of Directors resolved that no interim dividend be declared for the six months period ended 30th September 2007.

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 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the accounting period under review, except for the deviations from code provisions A4.1, 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 28th August 2007 had not been held in full compliance with this code provision. The meeting was however conducted in a good and proper manner.

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 standards set out in the Model Code.

Audit Committee

For the period from 1st April 2007 to 30th September 2007, the Audit Committee comprises three independent non-executive Directors, namely Dr. Hui Ho Ming, Herbert J.P, Mr. Zhang Jian Ming and Mr. Liu Hongru and Dr. 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 2007.

Hong Kong
18th December 2007

Condensed Consolidated Income Statement

For the six months ended 30th September 2007

	Note	**2007 (Unaudited) HK$'000**	2006 (Unaudited) HK$'000
Turnover	3	**114,373**	162,660
Cost of sales and services		**(87,403)**	(107,316)
Gross profit		**26,970**	55,344
Other income	4	**12,882**	11,192
(Loss) gain on change in fair value of convertible bonds	13	**(8,294)**	3,957
Distribution costs		**(1)**	(6)
Administrative expenses		**(61,165)**	(70,193)
Share of profit (loss) of an associate	5	**243**	(173)
Finance costs		**(509)**	(281)
Loss before taxation	6	**(29,874)**	(160)
Taxation	7	**(450)**	(3,005)
Loss for the period		**(30,324)**	(3,165)
Attributable to:			
Equity holders of the Company		**(29,668)**	(687)
Minority interests		**(656)**	(2,478)
		(30,324)	(3,165)
		HK cents	HK cents
Loss per share	8		
Basic		**(0.85)**	(0.02)
Diluted		**N/A**	(0.13)

Condensed Consolidated Balance Sheet

	Note	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**113,434**	98,691
Intangible assets	9	**73,440**	72,013
Interest in an associate	5	**94,372**	93,276
Available-for-sale investments		**7,173**	7,173
		288,419	271,153
Current assets			
Inventories		**1,342**	1,110
Amounts due from customers for contract work		**17,798**	17,974
Debtors and prepayments	10	**131,080**	157,293
Taxation recovereable		**–**	522
Investments held for trading		**18,390**	15,395
Loan receivable	11	**26,635**	26,306
Bank balances and cash		**444,269**	453,984
		639,514	672,584
Current liabilities			
Creditors and accruals	12	**53,327**	68,692
Taxation payable		**59**	–
Short-term bank loans		**25,235**	12,373
		78,621	81,065
Net current assets		**560,893**	591,519
Total assets less current liabilities		**849,312**	862,672
Non-current liability			
Convertible bonds	13	**219,308**	543,765
Net assets		**630,004**	318,907
Capital and reserves			
Share capital	14	**37,179**	33,370
Reserves		**592,814**	284,870
Equity attributable to equity holders of the Company		**629,993**	318,240
Minority interests		**11**	667
Total equity		**630,004**	318,907

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th September 2007

	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 2007	**33,370**	**440,733**	**19,215**	**78,108**	**20,360**	**23,245**	**11,851**	**(308,642)**	**318,240**	**667**	**318,907**
Exchange differences arising on translation of foreign operations recognised directly in equity	**–**	**–**	**–**	**–**	**6,508**	**–**	**–**	**–**	**6,508**	**–**	**6,508**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(29,668)**	**(29,668)**	**(656)**	**(30,324)**
Total recognised income and expenses for the period	**–**	**–**	**–**	**–**	**6,508**	**–**	**–**	**(29,668)**	**(23,160)**	**(656)**	**(23,816)**
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**–**	**2,162**	**–**	**–**	**2,162**	**–**	**2,162**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**(1,932)**	**–**	**1,932**	**–**	**–**	**–**
Issue of shares on conversion of convertible bonds	**3,809**	**328,942**	**–**	**–**	**–**	**–**	**–**	**–**	**332,751**	**–**	**332,751**
At 30th September 2007	**37,179**	**769,675**	**19,215**	**78,108**	**26,868**	**23,475**	**11,851**	**(336,378)**	**629,993**	**11**	**630,004**
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
At 30th September 2006	33,115	421,437	19,215	78,108	9,763	22,806	11,851	(248,442)	347,853	1,481	349,334

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September 2007

	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash used in operating activities	**(2,382)**	(15,967)
Net cash used in investing activities	**(20,330)**	(97,792)
Net cash from financing activities	**12,109**	8,920
Decrease in cash and cash equivalents	**(10,603)**	(104,839)
Cash and cash equivalent at beginning of the period	**453,984**	592,978
Effect of foreign exchange rate changes	**888**	2,071
Cash and cash equivalent at end of the period, representing bank balances and cash	**444,269**	490,210

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 address of its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

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 public 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 segment activities of the Group comprise telecommunications and information value-added services, the provision of Product Identification, Authentication and Tracking System ("PIATS"), 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 2007 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 2007 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 2007. The accounting policies 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 2007.

During the six months ended 30th September 2007, 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 1st April 2007. The application of the new HKFRSs has had no material effect on the financial statements of the Group.

Notes to the Condensed Consolidated Financial Statements (continued)

2. Basis of preparation and accounting policies (continued)

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

HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC)*-INT 12	Service concession arrangements[2]
HK(IFRIC)*-INT 13	Customer loyalty programmes[3]
HK(IFRIC)*-INT 14	HKAS 19 – The limit on defined benefit asset, minimum funding requirements and their interaction[2]

1 Effective for annual periods beginning on or after 1st January 2009
2 Effective for annual periods beginning on or after 1st January 2008
3 Effective for annual periods beginning on or after 1st July 2008

* IFRIC represents the International Financial Reporting Interpretations Committee.

The directors of the Company anticipate that the adoption of these standards and interpretations in future period will have no material impact on the financial position and result of the Group.

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.

Segment 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

Notes to the Condensed Consolidated Financial Statements (continued)

3. Segmental information (continued)

Business segments (continued)

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

Six months ended 30th September 2007	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	**111,464**	**2,667**	**242**	**114,373**
Segment results	**(8,267)**	**(8,533)**	**41**	**(16,759)**
Other income				**12,882**
Loss on change in fair value of convertible bonds				**(8,294)**
Share option expense				**(2,162)**
Share of profit of an associate				**243**
Finance costs				**(509)**
Unallocated corporate expenses				**(15,275)**
Loss before taxation				**(29,874)**
Taxation				**(450)**
Loss for the period				**(30,324)**

Notes to the Condensed Consolidated Financial Statements (continued)

3. Segmental information (continued)

Business segments (continued)

Six months ended 30th September 2006	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	150,958	5,691	6,011	162,660
Segment results	9,756	(2,550)	(1,774)	5,432
Other income				11,192
Gain on change in fair value of convertible bonds				3,957
Share option expense				(722)
Share of loss 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)

Geographical segments

All business segments are 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	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from bank deposits	**9,355**	10,897
Imputed interest income on loan receivable (Note 11)	**329**	295
Change in fair value of held for trading investments	**2,627**	–
Others	**571**	–
	12,882	11,192

5. Share of profit (loss) 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 before taxation

	Six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Staff costs	**34,521**	31,716
– including share option expense of HKHK2,162,000 (2006: HK$722,000) (Note)		
Depreciation	**7,193**	5,843
Operating lease rentals in respect of buildings	**6,226**	6,465

Note: Share option expense represented 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$2,162,000 for the six months ended 30th September 2007 (2006: HK$722,000) in relation to share options granted by the Company.

Notes to the Condensed Consolidated Financial Statements (continued)

7. Taxation

	Six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
The charge comprises		
Hong Kong Profits Tax	**33**	–
PRC Enterprise Income Tax		
Jointly controlled entities	**417**	3,005
	450	3,005

Hong Kong Profits Tax is calculated at 17.5% of the assessable profit.

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

On 16th March 2007, the PRC promulgated the Law of PRC Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC which will change the tax rate from 15%-33% to 25% for certain subsidiaries and jointly controlled entities from 1st January 2008. Other than the effect on current tax charge, the directors of the Company anticipate that the application of the New Law will have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements (continued)

8. Loss per share

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

	Six months ended 30th September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the purposes of basic loss per share	**(29,668)**	(687)
Gain on change in fair value of convertible bonds		(3,957)
Loss for the purposes of diluted loss per share		(4,644)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	**3,495,966,090**	3,308,784,183
Effect of dilutive potential ordinary shares:		
Convertible bonds		398,916,293
Share options		–
Weighted average number of ordinary shares for the purposes of diluted loss per share		3,707,700,476

The diluted loss per share for the six months ended 30th September 2007 was not presented as the exercise of the share options outstanding and the conversion of the Company's outstanding convertible bonds would result in a decrease in loss per share.

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. Intangible assets

Intangible assets represented the Group's license rights acquired from third parties. Such licenses are amortised over an estimated useful life of 20 years on a straight-line basis.

License rights represented the amounts paid for obtaining the unlimited deployment right of Oracle database management software and middleware for use in PIATS business.

Notes to the Condensed Consolidated Financial Statements (continued)

10. Debtors and prepayments

	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
Trade receivables	**59,049**	86,318
Other receivables (Note)	**23,043**	22,647
Deposits and prepayments	**48,988**	48,328
	131,080	157,293

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 China Credit Information Technology Company Limited ("CCIT") amounting to RMB18,000,000 (equivalent to HK$18,540,000). AQSIQ is the joint venture partner of CCIT.

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:

	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
0-90 days	**32,286**	37,066
91-180 days	**3,319**	25,932
181-360 days	**5,566**	6,891
Over 360 days	**17,878**	16,429
	59,049	86,318

11. Loan receivable

On 3rd March 2006, CITIC 21CN Telecom Company Limited ("CITIC 21CN Telecom") (a wholly owned subsidiary of the Group), entered into loan agreements with CCIT (a 50% owned jointly controlled entity of the Group) in which CITIC 21CN Telecom 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 2007, the fair value of the Group's share of the loan receivable was HK$26,635,000 (31st March 2007: HK$26,306,000), determined based on the present value of the estimated future cash flows discounted using effective interest rate of 2.5%. Interest income of HK$329,000 from the loan receivable is recognised in the income statement for the six months ended 30th September 2007 (2006: HK$295,000).

Notes to the Condensed Consolidated Financial Statements (continued)

12. Creditors and accruals

	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
Trade payables	**28,486**	45,402
Other payables and accruals	**24,841**	23,290
	53,327	68,692

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

	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
0-90 days	**11,403**	26,274
91-180 days	**1,046**	5,563
181-360 days	**6,352**	4,702
Over 360 days	**9,685**	8,863
	28,486	45,402

13. 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 2007, a loss on change in fair value of the Bonds of HK$8,294,000 (2006: gain of HK$3,957,000) is recognised in the income statement.

Notes to the Condensed Consolidated Financial Statements (continued)

14. Share capital

	Number of ordinary shares	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 31st March 2007 and 30th September 2007	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1st April 2006	3,308,628,417	33,086
Exercise of share warrants	5	–
Conversion of convertible bonds	28,351,570	284
At 31st March 2007	3,336,979,992	33,370
Conversion of convertible bonds	380,889,639	3,809
At 30th September 2007	3,717,869,631	37,179

15. Commitments

(a) Capital commitment

	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**3,062**	2,008

(b) Operating lease commitments

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

	30th September 2007 (Unaudited) HK$'000	31st March 2007 (Audited) HK$'000
Within one year	**7,895**	10,399
In the second to fifth year inclusive	**3,828**	3,282
	11,723	13,681

Leases are negotiated for term of one to five years.

Notes to the Condensed Consolidated Financial Statements (continued)

16. 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	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Telecommunications/information value-added services agency fee (note a)	**2,342**	2,825

(a) 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.

17. Litigation

The Company received a claim from a former employee in the Hong Kong Labour Tribunal which in turn transferred to the Hong Kong High Court 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 options 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 and that the Company has a reasonable prospect of a successful defense. Accordingly, no provision in connection with the legal claim has been made in the condensed consolidated financial statements.

18. Subsequent event

On 21st November 2007, certain bondholders exercised the put option to redeem US$16,000,000 of the issued Bonds. The redemption will occur on 21st December 2007 at redemption price of 110.381% in accordance with the Trust Deed dated 21st December 2005 for a total consideration of US$17,660,960.