



NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2002/03 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March, 2003 except that the Group has changed its accounting policy in respect of deferred tax following its adoption of SSAP 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January, 2003.

The change to the Group's accounting policies and the effect of adopting this new policy is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior periods, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the revised SSAP 12 has no material effect on the results for the current or prior periods.



2. Segmental information

The Group principally operates businesses relating to telecommunication-related services, software, systems, solutions, operations and investments in the People's Republic of China ("PRC"). For the six months ended 30th September, 2003, the Group is engaged in the following business segments:

System integration and software development : Provides data communication network systems and solutions in the PRC and develops telecommunication-related software

Property investment and holding : Holds properties in the PRC for investment

An analysis of the Group's revenues and results for the Period by business segment is as follows:

	Continuing Operation		Discontinuing Operations					
	System integration and software development		Property investment and holding		Dairy farm operation		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30th September,		30th September,		30th September,		30th September,	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	55,836	-	1,328	3,161	-	249	57,164	3,410
Segment results	(1,332)	-	653	(3,817)	-	134	(679)	(3,683)
Gain on disposal of discontinued operation	-	-	-	-	-	1,484	-	1,484
Other revenue							210	65
Unallocated expenses							(7,198)	(9,418)
Operating loss							(7,667)	(11,552)



3. Operating loss

Operating loss is stated after crediting and charging the following:

	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
Crediting		
Interest income	<u>210</u>	<u>65</u>
Charging		
Cost of inventories sold and services provided	46,563	92
Depreciation of fixed assets	816	384
Outgoings in respect of investment properties	278	253
Operating lease rental in respect of		
land and buildings	710	701
Revaluation deficit of investment properties	–	6,500
Staff costs (of which HK\$572,000		
(2002: Nil) included in cost of inventories sold		
and services provided)	<u>9,666</u>	<u>4,895</u>



4. Taxation

	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
PRC enterprise income tax (<i>note (a)</i>)		
– provision for the current period	–	–
– under provision in prior period	381	–
Overseas profits tax (<i>note (a)</i>)	–	194
Deferred taxation		
– reversal of temporary differences	73	–
	<u>454</u>	<u>194</u>

- (a) PRC enterprise income tax and overseas profits tax have been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in places where the Group operates.
- (b) Hong Kong profits tax has not been provided for in the accounts as the Group had no estimated assessable profit for the Period.

5. Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$8,260,000 (2002: HK\$12,610,000) and the weighted average of 3,109,266,000 (2002: 3,092,599,333) ordinary shares in issue during the Period.

The outstanding share options of the Company do not result in any dilutive effect on the loss per share in respect of the periods ended 30th September, 2003 and 2002.

**6. Fixed assets**

	<i>HK\$'000</i>
At 1st April, 2003	39,751
Additions	343
Depreciation charge for the Period	(816)
	<u> </u>
At 30th September, 2003	<u><u>39,278</u></u>

7. Trade and other receivables

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables (<i>note (a)</i>)	43,000	15,530
Prepayments, deposits and other receivables	11,043	5,444
	<u> </u>	<u> </u>
Total	<u>54,043</u>	<u>20,974</u>

- (a) Trade receivables comprise of contract receivables of which the terms are stated in the contracts and vary from one customer to another.

At 30th September, 2003, the ageing analysis of the trade receivables was as follows:

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 3 months	31,115	8
4 – 6 months	501	1,621
7 – 9 months	–	1,614
10 – 12 months	2,595	274
Over 12 months	8,789	12,013
	<u> </u>	<u> </u>
Total	<u>43,000</u>	<u>15,530</u>

**8. Trade and other payables**

	30th September, 2003 HK\$'000	31st March, 2003 HK\$'000
Due to a minority shareholder (<i>note (a)</i>)	2,397	2,028
Due to a related company (<i>note (b)</i>)	1,540	1,540
Trade payables (<i>note (c)</i>)	45,444	38,186
Litigation provision (<i>note 14</i>)	6,868	6,868
Accruals and other payables	16,496	19,827
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Total	72,745	68,449
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- (a) The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.
- (b) The related company is a fellow subsidiary of a shareholder of a subsidiary of the Group. The amount due to the related company is unsecured, interest free and has no fixed terms of repayment.
- (c) At 30th September, 2003, the ageing analysis of the trade payables was as follows:

	30th September, 2003 HK\$'000	31st March, 2003 HK\$'000
0 – 3 months	13,718	5,517
4 – 6 months	819	3,080
7 – 9 months	695	19,207
10 – 12 months	3,291	591
Over 12 months	26,921	9,791
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Total	45,444	38,186
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**9. Loan from a related company**

The related company is a company in which a shareholder of the Company has beneficial interests. The loan is unsecured, interest bearing at prime rate plus 2% per annum and is repayable on demand.

10. Share capital**Ordinary shares of HK\$0.01 each**

Number of shares *HK\$'000*

Authorised:

At 31st March and 30th September, 2003

10,000,000,000

100,000

Ordinary shares of HK\$0.01 each

Number of shares *HK\$'000*

Issued and fully paid:

At 31st March and 30th September, 2003

3,109,266,000

31,093



11. Acquisition and disposal

On 31st July, 2003, the Group entered into connected transactions with associates, as defined in the Listing Rules, of a substantial beneficial shareholder, China International Trust and Investment Corporation (“CITIC”), to acquire 45% equity interests in Beijing Hong Lian 95 (“HL95”), a telecommunications value-added services company, at a consideration of RMB13.6 million with reference to the audited consolidated net asset value of HL95 prepared under the generally accepted accounting principles (“GAAP”) in the PRC as at 31st December, 2002. Further, under a joint venture agreement with the continuing shareholder of HL95, also an associate of CITIC, the Group committed to inject RMB22.5 million into HL95. The total investment cost in HL95 amounted to RMB36.1 million, which is equivalent to approximately HK\$34 million.

On the same date, the Group entered into another connected transaction with two other associates of CITIC to dispose of Easy Concepts (Shanghai) International Trading Co., Ltd. (“EC(SH)”), a wholly-owned subsidiary of the Company. Pursuant to the disposal agreement, a restructuring will be carried out so that prior to the disposal, all PRC properties of the Group will be transferred to EC(SH) and upon completion of the disposal, the Group will receive approximately HK\$36 million which is equivalent approximately to the value of the properties as at 31st March, 2003.

The parties agreed that the proceeds from the disposal of EC(SH) will be used to settle the cost of investment in HL95, resulting in a net receivable balance of approximately HK\$2 million.

The consolidated net asset value of HL95 adjusted in accordance with Hong Kong GAAP as at 30th June, 2003 was RMB37.7 million and the profit before and after taxation and minority interest, adjusted in accordance with Hong Kong GAAP, for the six-month period ended 30th June, 2003 were RMB15.2 million and RMB7.9 million respectively.

A Special General Meeting was held on 10th September, 2003 and approval for these connected transactions from the shareholders was obtained. The completion of these transactions is subject to the approval from the relevant PRC authorities which was in progress as at 30th September, 2003.



12. Contingent liabilities

	30th September, 2003 HK\$'000	31st March, 2003 HK\$'000
Guarantees given in lieu of utility deposits	<u>200</u>	<u>200</u>

13. Related party transactions

In addition to those described in notes 8(a), 8(b), 9 and 11, significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Six months ended 30th September, 2003 HK\$'000	2002 HK\$'000
Service fees received from a minority shareholder (<i>note (a)</i>)	2,439	–
Interest expenses paid to a related company (<i>note 9</i>)	<u>123</u>	<u>120</u>

- (a) Services fees were received from a minority shareholder pursuant to a contract in respect of services for system integration and software development projects entered into between a subsidiary of the Group and the minority shareholder.



14. Litigations

In respect of the claims brought by Kadoorie Estate Limited and Wai Fung Plaza Limited for damages resulted from breaches of terms of the operating lease agreements between the Group and the respective parties, no further actions had been taken by the claimants during the Period. The directors considered that the provisions as at 30th September, 2003 of HK\$2.2 million and HK\$4.6 million made in prior years and carried on the consolidated balance sheet for the respective cases are adequate and no further provision is required.

15. Subsequent events

- (a) On 27th October, 2003, Uni-Tech International Group Limited (“Uni-Tech”), a substantial shareholder, entered into a placing agreement with a placing agent to place 75,000,000 shares at HK\$0.60 per share to independent investors and on the same day, a subscription agreement, which was conditional upon the completion of the placing, was entered into between Uni-Tech and the Company for the subscription of the same number of shares at the same price. The shares placed represent approximately 2.41% of the issued share capital of the Company as at 30th September, 2003 and approximately 2.35% of the enlarged issued share capital of the Company. The subscription was completed on 7th November, 2003 and the net proceeds of approximately HK\$43 million is to be used as working capital.
- (b) On 15th December, 2003, a board resolution on the proposed change of the name of the Company from “21CN CyberNet Corporation Limited” to “CITIC 21CN COMPANY LIMITED” was passed. Such proposal is subject to the passing of a special resolution by the shareholders of the Company at a special general meeting and the Registrar of Companies in Bermuda granting approval for the change of name.