

Notes to the Accounts**1. ACCOUNTING POLICIES**

During the period, the Group adopted the new Hong Kong Accounting Standard No. 31 ("HKAS31") "Interests in Joint Ventures" issued by the Hong Kong Institute of Certified Public Accountants in advance of its effective date and has changed its accounting policy on jointly controlled entities. Under HKAS31, jointly controlled entities are accounted for using the proportionate consolidation method under which the share of individual assets and liabilities, income and expenses and cash flows of jointly controlled entities is included in the relevant components of the consolidated accounts.

In previous years, jointly controlled entities were accounted for under the equity method whereby the Group's share of results was included in the consolidated profit and loss account and the Group's share of net assets was included in the consolidated balance sheet. The Directors are of the view that the proportionate consolidation method under HKAS31 fairly reflects the substance and economic reality of the arrangement for jointly controlled entities and therefore the financial performance and position of the Group. This change in accounting policy has been applied retrospectively. As a result, the comparative figures for the consolidated balance sheet as at 31st March 2004 have been restated but the change has no effect on the reserves of the Group as at that date. There is no restatement of the consolidated profit and loss account for the six month period ended 30th September 2003 since the Group does not have any jointly controlled entities during that period.

Apart from the foregoing, the accounting policies adopted for the preparation of these accounts are consistent with those described in the 2004 Annual Accounts.

2. SEGMENTAL INFORMATION

The principal activities of the Group are telecommunications value-added services, system integration and software development. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary reporting format is by geographical segments. There were no sales or trading transactions between the business segments.

Notes to the Accounts

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

	Telecommunications value added services		System integration and software development		Property investment		Corporate		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	109,756	—	16,134	55,836	—	1,328	—	—	125,890	57,164
Segment results	16,947	—	(4,422)	(1,332)	—	653	4,351	(6,988)	16,876	(7,667)
Finance costs									(788)	(139)
Profit/(loss) before taxation									16,088	(7,806)
Taxation									(3,761)	(454)
Profit/(loss) after taxation									12,327	(8,260)
Minority interests	(686)	—	1	—	—	—	—	—	(685)	—
Profit/(loss) attributable to shareholders									11,642	(8,260)

All customers under the business segments are primarily in Mainland China, a separate summary of geographical segment is therefore not presented.

3. OTHER REVENUES

	2004 HK\$'000	2003 HK\$'000
Bad debts recovered (note a)	10,000	—
Write back of long outstanding payables	5,250	—
Amortisation of negative goodwill	656	—
Interest	123	210
Sundries	471	—
	16,500	210

(a) The amount represents the recovery of a receivable from a former joint venture partner, on which full provision was made in 2001. Details of this receivable is set out in note 20 of the 2004 Annual Accounts.

Notes to the Accounts**4. OPERATING PROFIT/(LOSS)**

	2004 HK\$'000	2003 HK\$'000
Operating profit/(loss) is stated after charging the following:		
Cost of inventories sold and services provided	70,783	46,563
Depreciation	5,459	816
Loss on disposal of properties, plant and equipments	42	—
Outgoings in respect of investment properties	—	278
Operating lease rental expense for land and buildings	4,241	710
Staff costs	27,268	9,666

5. TAXATION

	2004 HK\$'000	2003 HK\$'000
Current (Mainland China)		
Company and subsidiaries	68	454
Jointly controlled entity	3,693	—
	3,761	454

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

6. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$11,642,000 (2003: loss of HK\$8,260,000) and on the weighted average number of 3,282,353,000 (2003: 3,109,266,000) shares in issue during the period.

The outstanding share options of the Company have no material dilutive effect on the earning per share for the period.

Notes to the Accounts

7. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
At 1st April 2004 (as restated)	44,667
Acquisition of additional interest in a jointly controlled entity	3,496
Additions	16,192
Disposals	(64)
Depreciation	(5,459)
At 30th September 2004	58,832
At 1st April 2003	39,751
Additions	343
Depreciation	(816)
At 30th September 2003	39,278

8. CASH AND BANK BALANCES

	30th September 2004 HK\$'000	As restated 31st March 2004 HK\$'000
Cash and bank balances (note)	189,244	225,586
Restricted bank deposits included in non-current assets	(1,057)	—
	188,187	225,586

Note:

Bank balances of the Group include a deposit of HK\$5,000,000 (31st March 2004: nil) which has been pledged as securities for a short term bank loan.

Notes to the Accounts

9. DEBTORS AND PREPAYMENTS

	30th September 2004 HK\$'000	As restated 31st March 2004 HK\$'000
Trade debtors	104,123	95,621
Other debtors	5,898	8,471
Prepayments and deposits	3,913	9,118
	113,934	113,210

For contract receivables, the payment terms of which are stated in the contracts and vary from one customer to another. All other invoices billed are generally on credit terms of 90 days. The ageing analysis of the trade debtors, net of provision for bad and doubtful debt and prepared based on due date according to terms of relevant contracts, is as follows:

	30th September 2004 HK\$'000	As restated 31st March 2004 HK\$'000
Not yet due	12,294	17,411
Below 3 months	62,667	55,679
4 to 6 months	14,370	9,220
7 to 9 months	4,150	4,921
10 to 12 months	2,706	383
Over 12 months	7,936	8,007
	104,123	95,621

10. CREDITORS AND OTHER ACCRUALS

	30th September 2004 HK\$'000	As restated 31st March 2004 HK\$'000
Trade creditors	57,084	59,940
Other creditors	19,755	32,712
Payable to minority shareholders	4,185	4,185
Payable to a related company	1,857	1,857
Accrued expenses	8,704	16,531
	91,585	115,225

Notes to the Accounts

The ageing analysis of the trade creditors of the Group, prepared in accordance with the date of involves, is as follows:

	30th September 2004 HK\$'000	As restated 31st March 2004 HK\$'000
Below 3 months	20,940	32,203
4 to 6 months	11,306	3,111
7 to 9 months	1,266	1,817
10 to 12 months	1,553	1,247
Over 12 months	22,019	21,562
	57,084	59,940

11. SHARE CAPITAL

	Shares of HK\$0.01 each	HK\$'000
Authorised:		
At 31st March and 30th September 2004	10,000,000,000	100,000
Issued and fully paid:		
At 1st April 2003	3,109,266,000	31,093
Issue of new shares	172,500,000	1,725
Exercise of share options	540,000	5
At 31st March 2004	3,282,306,000	32,823
Exercise of share options	1,226,666	12
At 30th September 2004	3,283,532,666	32,835

On 7th November 2003 and 30th March 2004, the Company allotted and issued 75,000,000 and 97,500,000 new shares of HK\$0.01 each at the issue price of HK\$0.60 and HK\$0.80 per share, respectively, to provide for additional working capital to the Group. All new shares rank pari passu with the existing shares.

Notes to the Accounts

12. COMMITMENTS

(a) Capital commitment

On 20th September 2004, the Group entered into an agreement to acquire 30% equity interest in Dongfang Customs Technology Company Limited at a consideration of RMB59,806,000 (equivalent to HK\$56,421,000) from the CITIC Group, a substantial beneficial shareholder of the Group. Details of this acquisition are set out in a Circular to the Shareholders dated 10th October 2004. The completion of the acquisition is subject to, inter alia, approvals from the relevant governmental authorities.

As at 31st March 2004, the Group's share of capital commitments of the joint ventures contracted but not provided for HK\$9,216,000.

(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 2004 HK\$'000	As restated 31st March 2004 HK\$'000
Within one year	5,947	6,662
Two to five years	3,737	4,198
More than five years	817	1,789
	10,501	12,649

13. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30th September 2004 and 31st March 2004.

Notes to the Accounts

14. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, during the six months period ended on 30th September 2004 and 2003 are as follows:

	2004 HK\$'000	2003 HK\$'000
Purchase of certain interest of a jointly control entity (note (a))	(3,028)	—
Service fees income from a minority shareholder	—	2,439
Service fees income for provision of technical and training support to CITIC Group (note (b))	12,142	—

Note:

- (a) On 2nd June 2004, the Group acquired an additional 4% equity interest in Beijing Honglian 95 Information Industries Company Limited, a jointly controlled entity of the Group, from CITIC Guoan Informational Industries Company Limited, a related company.
- (b) The jointly controlled entity entered into a services agreement with CITIC Group for the provision of technical support and training course to CITIC Group. The service fee is charged base on actual cost incurred plus 5% margin.