# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March 2006*

## 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 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 principal activities of the Group comprise telecommunication and information value-added services, the provision of Product Identification, Authentication, Tracking System, system integration and software development. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

## 2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, 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 the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented.

**Share-based payments**

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April 2005. In relation to share options granted before 1st April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November 2002 and vested before 1st April 2005 (see note 3 for the financial impact).

## 2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

**Financial instruments**

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

***Convertible bonds***

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The principal impact of HKAS 32 and HKAS 39 on the Group is in relation to the convertible bonds issued by the Company on 21st December 2005 and 11th January 2006. According to HKAS 32, the conversion option should be classified as equity component only if the option can be converted by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. Upon application of HKAS 32 and HKAS 39, the Group determined that the convertible notes do not contain any equity components because the conversion price for the convertible notes is subject to change and the convertible bonds cannot be converted into a fixed number of the Company's shares. During the year, a loss of HK$1,420,000 in respect of the change in fair value of the convertible bonds was recognised.

***Classification and measurement of financial assets and financial liabilities***

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities". Under SSAP 24, investments in debt or equity securities are classified as "other investments" as appropriate. Other investments are carried at cost less impairment losses (if any).

## 2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Classification and measurement of financial assets and financial liabilities*** *(Continued)*

From 1st April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition. During the year, a loss of HK$1,246,000 in respect of the change in fair value of loan receivable was recognised.

On 1st April 2005, the Group has reclassified its other investments with a carrying amount of HK$7,728,000 to available-for-sale investments (see note 3 for the financial impact).

***Financial assets and financial liabilities other than debt and equity securities***

From 1st April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

**Owner-occupied leasehold interest in land**

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of this standard has had no material effect on how the results of the current or prior accounting years are prepared and presented.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES AND RESTATEMENT OF FIGURES FOR 2005

Other than disclosed above for the effects of the changes in accounting policies, treatment for the discount on acquisition of associate in 2005 was revisited and restated. The negative goodwill arising from acquisition of an associate, Dongfang Customs Technology Company Limited ("Dongfang Customs"), from the substantial shareholder, the CITIC Group, in the prior year should be presented as deemed capital contribution from a shareholder and shown as capital reserve in the consolidated financial statements. As a result of this prior year adjustment, the Group's accumulated losses as at 1st April 2005 has been increased by HK$19,215,000. The Group's capital reserve as at 1st April 2005 has been increased by HK$19,215,000 which represented the deemed capital contribution from the substantial shareholder, the CITIC Group, made on the acquisition of the associate, Dongfang Customs. There is no impact to the profit for the current year (2005: decreased by HK$19,215,000).

The effects of the changes in the accounting policies and prior year adjustment described above on the results for the current and prior years are as follows:

**Income statement items**

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Expenses in relation to share options granted to employees included in total staff cost (administrative expenses) and | **16,046** | 7,960 |
| Deemed contribution arising from acquisition of an interest in an associate from a shareholder | **–** | 19,215 |
| Total decrease in profit | **16,046** | 27,175 |

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES AND RESTATEMENT OF FIGURES FOR 2005 *(Continued)*

**Balance sheet items**

| | 31.3.2005 HK$'000 (originally stated) | Retrospective adjustments HK$'000 | 31.3.2005 HK$'000 (restated) | Opening adjustments as at 1.4.2005 HK$'000 | 1.4.2005 HK$'000 (restated) |
|---|---|---|---|---|---|
| Available-for-sale investments | – | – | – | 7,728 | 7,728 |
| Other investments | 7,728 | – | 7,728 | (7,728) | – |
| | | – | | – | |
| Accumulated losses | (228,785) | (11,931) | (240,716) | (19,215) | (259,931) |
| Capital reserve | – | – | – | 19,215 | 19,215 |
| Share options reserve | – | 11,931 | 11,931 | – | 11,931 |

The cumulative effects of the application of the new HKFRSs as at 31st March 2004 and 1st April 2004 are summarised below:

| | 31.3.2004 HK$'000 (originally stated) | Retrospective adjustments HK$'000 | 1.4.2004 HK$'000 (Restated) |
|---|---|---|---|
| Accumulated losses | (250,662) | (3,971) | (254,633) |
| Share options reserve | – | 3,971 | 3,971 |

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES AND RESTATEMENT OF FIGURES FOR 2005 *(Continued)*

The Group has not early applied the following Standards and INTs that have been issued but are not yet effective:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures[1] |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures[2] |
| HKAS 21 (Amendment) | Net investment in a foreign operation[2] |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions[2] |
| HKAS 39 (Amendment) | The fair value option[2] |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts[2] |
| HKFRS 6 | Exploration for and evaluation of mineral resources[2] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HK(IFRIC)-INT 4 | Determining whether an arrangement contains a lease[2] |
| HK(IFRIC)-INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2] |
| HK(IFRIC)-INT 6 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3] |
| HK(IFRIC)-INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2[5] |
| HK(IFRIC)-INT 9 | Reassessment of embedded derivatives[6] |

1 Effective for annual periods beginning on or after 1st January 2007.
2 Effective for annual periods beginning on or after 1st January 2006.
3 Effective for annual periods beginning on or after 1st December 2005.
4 Effective for annual periods beginning on or after 1st March 2006.
5 Effective for annual periods beginning on or after 1st May 2006.
6 Effective for annual periods beginning on or after 1st June 2006.

The directors of the Company anticipate that the application of the above standards and INTs will have no material impact on the financial statements of the Group except for the adoption of HKAS 39 (Amendment). The Group has commenced considering the potential impact of HKAS 39 (Amendment) but is not yet in a position to determine whether it would have a significant impact on how its results of operations and financial position are prepared and presented.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepare on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Goodwill**

*Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").*

A discount on acquisition arising on an acquisition of a subsidiary or a jointly controlled entity for which an agreement date is on or after 1st January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in income statement. A discount on acquisition arising on an acquisition of a jointly controlled entity is included as income in the determination of the investor's share of results of the jointly controlled entity in the period in which the investment is acquired.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Associate**

The results and assets and liabilities of associate are incorporated in these financial statements using the equity method of accounting. Under the equity method, interests in associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses in recognised.

**Joint ventures**

***Jointly controlled entities***

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from telecommunications/information value-added services is recognised when the services are provided.

Sales of merchandise is recognised when the goods are delivered, the risks and rewards of ownership and legal title has been passed.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition** *(Continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the rights to receive payment have been established.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress represents assets in the course of construction for production, rental or administrative purposes. They are carried at cost, less any recognised impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

**Borrowing costs**

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**System integration and software development contracts**

When the outcome of a contract for system integration and software development can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs each for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**Impairment losses**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Taxation** *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial assets***

The Group's financial assets include loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan receivable, amounts due from customers for contract work, trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

The Group's financial liabilities include other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

*Other financial liabilities*

Other financial liabilities including trade and other payables, bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

*Convertible bonds at fair value through profit or loss*

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds with embedded derivatives as a whole are designated as financial liabilities at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bond designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign currencies** *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Share-based payment transactions**

***Equity-settled share-based payment transactions***

*Share options granted to employees of the Company*

The fair value of services received determined by reference to the fair value of share options granted at the grant date (excluding the effect of non-market based vesting conditions) is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest adjusted for the effect of non-market based vesting conditions, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

**Retirement benefit cost**

Payments to the state-managed retirement benefit scheme or the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Depreciation**

The Group's carrying values of property, plant and equipment as at 31st March 2006 was approximately HK$69,698,000. The Group depreciates the property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Income taxes**

As at 31st March 2006, no deferred tax asset was recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$164,251,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

**Share option benefit expenses**

In determining the share option benefit expense, management appointed Vigers Appraisal and Consulting Limited ("Vigers") which used the Binomial model to provide a valuation report of the share option benefit expense. The share option benefit expense is subject to the limitations of Binomial model and the uncertainty in estimates used by Vigers in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 31 for the different variables of certain subjective assumptions).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share options reserve.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include loan receivables, trade and other receivables, bank balances and cash, trade and other payables and short-term bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

The Group's financial assets are loan receivables, debtors and bank balances and cash, the amounts of those assets stated in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to loan receivables and debtors, the management of the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risks relating to loan receivables are closely monitored on a ongoing basis by the management. At 31st March 2006, the Group has no significant concentrations of credit risk.

The credit risk in relation to bank balances and cash is limited because the majority of the counterparties are financial institutions and banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation in the People's Republic of China (the "PRC").

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

**Cash flow interest rate risk**

The Group's cash flow interest rate risk primarily relates to fixed-rate bank deposits (see note 25) and bank borrowings (see note 27). The Group currently does not have hedging policy in respect of the interest rate risk. However, management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

**Currency risk**

Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## 7. TURNOVER

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| An analysis of the Group's turnover is as follows: | | |
| Telecommunications/information value-added services | **297,588** | 189,767 |
| System integration and software development | **100,808** | 59,291 |
| Product identification, authentication, tracking system business | **5,149** | – |
| | **403,545** | 249,058 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

**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 product identification, authentication, tracking system, and system integration and software development. These divisions are the basis on which the Group reports its primary segment information.

In the prior year, the Group was organised into two operating divisions – telecommunications/information value-added services and system integration and software development.

Principal activities are as follows:

| | | |
|---|---|---|
| Telecommunications/information value-added services | – | provision of telecommunications/information value-added services |
| Product identification, authentication, tracking system business | – | operation of an exclusive platform for product identification, authentication, tracking system ("PIATS") |
| System integration and software development | – | provision of system integration and software development |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

Business segments for the year are as follows:

| | Telecom–munications/ information value-added services HK$'000 | PIATS business HK$'000 | System integration and software development HK$'000 | Eliminations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31st March 2006** | | | | | |
| Turnover | | | | | |
| External sales | 297,588 | 5,149 | 100,808 | – | 403,545 |
| Inter-segment sales* | – | – | 17,714 | (17,714) | – |
| Total | 297,588 | 5,149 | 118,522 | (17,714) | 403,545 |
| Segment results | 32,909 | (2,753) | 64,753 | (9,356) | 85,553 |
| Other income | | | | | 67 |
| Interest income | | | | | 7,425 |
| Change in fair value of convertible bonds | | | | | (1,420) |
| Convertible bonds issue expenses | | | | | (26,480) |
| Share of result of an associate | | | | | 9,725 |
| Finance costs | | | | | (123) |
| Unallocated corporate expenses | | | | | (55,360) |
| Profit before taxation | | | | | 19,387 |
| Taxation | | | | | (13,100) |
| Profit for the year | | | | | 6,287 |
| ASSETS | | | | | |
| Segment assets | 134,580 | 25,296 | 121,565 | – | 281,441 |
| Interest in an associate | | | | | 86,387 |
| Loan receivable | | | | | 25,664 |
| Unallocated corporate assets | | | | | 613,716 |
| Consolidated total assets | | | | | 1,007,208 |
| LIABILITIES | | | | | |
| Segment liabilities | 47,435 | 192 | 44,043 | – | 91,670 |
| Taxation liabilities | | | | | 8,957 |
| Unallocated corporate liabilities | | | | | 565,143 |
| Consolidated total liabilities | | | | | 665,770 |
| OTHER INFORMATION | | | | | |
| Capital additions | 12,252 | 11,291 | 242 | 2,440 | 26,225 |
| Depreciation | 8,378 | 91 | 399 | 1,795 | 10,663 |

* *Inter-segment sales are charged at prevailing market prices.*

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

| | | Telecom–munications/ information value-added services HK$'000 | System integration and software development HK$'000 | Total HK$'000 (Restated) |
|---|---|---|---|---|
| Year ended 31st March 2005 (Restated) | | | | |
| Turnover | | 189,767 | 59,291 | 249,058 |
| Segment results | | 25,358 | (10,515) | 14,843 |
| Gain on disposal of subsidiaries | | | | 13,103 |
| Interest income | | | | 441 |
| Finance costs | | | | (1,221) |
| Unallocated corporate expenses | | | | (20,851) |
| Profit before taxation | | | | 6,315 |
| Taxation | | | | (5,231) |
| Profit for the year | | | | 1,084 |
| ASSETS | | | | |
| Segment assets | | 114,889 | 77,356 | 192,245 |
| Interest in an associate | | | | 76,560 |
| Unallocated corporate assets | | | | 180,341 |
| Consolidated total assets | | | | 449,146 |
| LIABILITIES | | | | |
| Segment liabilities | | 49,883 | 60,257 | 110,140 |
| Taxation liabilities | | | | 3,177 |
| Unallocated corporate liabilities | | | | 19,748 |
| Consolidated total liabilities | | | | 133,065 |
| OTHER INFORMATION | | | | |
| Capital additions | 17,305 | 111 | 4,912 | 22,328 |
| Depreciation | 10,874 | 993 | 652 | 12,519 |

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

## 9. OTHER INCOME

| | 2006<br>HK$'000 | 2005<br>HK$'000<br>(Restated) |
|---|---|---|
| Included in other income are the following items: | | |
| Interest income | **7,425** | 441 |
| Discount on acquisition | | |
| – acquisition of additional interest in a jointly controlled entity | **–** | 491 |
| – acquisition of subsidiaries by a jointly controlled entity | **–** | 697 |
| Gain on disposal of subsidiaries | **–** | 13,103 |
| Bad debts recovered | **–** | 10,000 |
| Write back of long outstanding payables | **–** | 6,775 |
| Others | **67** | – |
| | **7,492** | 31,507 |

## 10. FINANCE COSTS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **123** | 1,097 |
| Interest on loan from a related company | **–** | 124 |
| | **123** | 1,221 |

## 11. PROFIT BEFORE TAXATION

| | 2006<br>HK$'000 | 2005<br>HK$'000<br>(Restated) |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration (note 13) | **2,226** | 6,545 |
| Other staff's retirement benefits scheme contributions | **3,045** | 2,282 |
| Other staff costs | **62,326** | 43,333 |
| Share option expense (note 31) | **16,046** | 7,960 |
| | **83,643** | 60,120 |
| Auditors' remuneration | **2,576** | 4,290 |
| Depreciation | **10,663** | 12,519 |
| Loss on disposal of property, plant and equipment | **832** | 6 |
| Change in fair value of loan receivable (note 18) | **1,246** | – |
| Net exchange loss | **1,019** | 463 |
| Share of tax of an associate (included in share of result of an associate) | **108** | – |
| Operating lease rentals in respect of land and buildings | **10,589** | 6,377 |
| and after crediting: | | |
| Interest income (note 9) | **7,425** | 441 |

## 12. TAXATION

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| PRC Enterprise Income Tax | | |
| The Company and subsidiaries | **6,061** | (102) |
| Jointly controlled entities | **7,039** | 5,333 |
| | **13,100** | 5,231 |

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

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

The charge for the year can be reconciled to the profit before taxation as follows:

| | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|
| Profit before taxation attributable to the Company and its subsidiaries | **19,387** | 6,315 |
| Less: Share of result of an associate | **(9,725)** | – |
| | **9,662** | 6,315 |
| Tax at the rate of 33% (2005: 33%) | **3,188** | 2,083 |
| Tax effect of income that is not subject to taxation | **(1,931)** | (7,448) |
| Tax effect of expenses that are not deductible for tax purposes | **12,515** | 9,483 |
| Tax effect of tax losses not recognised | **6,680** | 1,286 |
| Effect of different tax rates in other jurisdictions | **10,992** | 3,000 |
| Effect of exemption granted to PRC subsidiaries | **(7,943)** | – |
| Income tax at concessionary rate | **(9,831)** | (3,200) |
| Others | **(570)** | 27 |
| Taxation attributable to the Company and its subsidiaries for the year | **13,100** | 5,231 |

## 12. TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of approximately HK$164,251,000 (2005: HK$126,080,000) available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit stream. The tax losses can be carried forward indefinitely.

Pursuant to the relevant laws and regulations in the PRC, a jointly controlled entity and a subsidiary are entitled to exemption from PRC income tax for the two years ended starting from 31st March 2006 and a 50% relief for the subsequent three years. In addition, a jointly controlled entity and an associate are awarded as the Advanced-Technology Enterprise Certificate and entitled to a concessionary rate of income tax at 15%.

## 13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2005: 13) directors were as follows:

| | Mr. Wang Jun | Ms. Chen Xiao Ying | Mr. Luo Ning | Mr. Sun Yalei | Mr. Zhang Lian Yang | Mr. Yin Yiping | Ms. Xia Guilan | Dr. Liu Xiaoping | Mr. Hui Ho Ming, Herbert, JP | Mr. Zhang Jian Ming | Mr. Liu Hongru | Mr. Tsui Yiu Wa, Alec | 2006 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Fees | – | – | – | – | – | – | – | – | 135 | – | 200 | 123 | 458 |
| Other emoluments | | | | | | | | | | | | | |
| – salaries and other benefits | – | 1,288 | – | – | – | – | – | 462 | – | – | – | – | 1,750 |
| – contributions to retirement benefits schemes | – | 12 | – | – | – | – | – | 6 | – | – | – | – | 18 |
| Total emoluments | – | 1,300 | – | – | – | – | – | 468 | 135 | – | 200 | 123 | 2,226 |
| Share option expense | 11,527 | 701 | 44 | 44 | 59 | – | – | – | – | – | – | – | 12,375 |

## 13. DIRECTORS' EMOLUMENTS *(Continued)*

| | Mr. Wang Jun | Ms. Chen Xiao Ying | Mr. Luo Ning | Mr. Sun Yalei | Mr. Zhang Lian Yang | Mr. Yin Yiping | Ms. Xia Guilan | Dr. Liu Xiaoping | Mr. Vong Tat Leong, David | Mr. Zhang Yue | Mr. Zhang Jian Ming | Mr. Liu Hongru | Mr. Tsui Yiu Wa, Alec | 2005 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$000 | HK$'000 |
| Fees | – | – | – | – | – | – | – | – | – | – | – | 100 | 200 | 300 |
| Other emoluments | | | | | | | | | | | | | | |
| – salaries and other benefits | – | 1,549 | 1,200 | – | – | – | – | 1,718 | 1,667 | 80 | – | – | – | 6,214 |
| – contributions to retirement benefits schemes | – | 12 | – | – | – | – | – | 12 | 7 | – | – | – | – | 31 |
| Total emoluments | – | 1,561 | 1,200 | – | – | – | – | 1,730 | 1,674 | 80 | – | 100 | 200 | 6,545 |
| Share option expense | 291 | 3,371 | 189 | 189 | 256 | – | – | 36 | 227 | 109 | – | – | – | 4,668 |

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 14. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2005: four) directors of the Company, whose emoluments are included in note 13 above. The aggregate emoluments of the remaining three (2005: one) highest paid individuals are as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowances | **1,884** | 736 |
| Retirement benefits scheme contributions | **33** | 12 |
| | **1,917** | 748 |

The emoluments of the individuals fall within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2006** | 2005 |
| Nil to HK$1,000,000 | **3** | 1 |

## 15. EARNINGS (LOSS) PER SHARE

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

| | 2006<br>HK$'000 | 2005<br>HK$'000<br>(Restated) |
|---|---|---|
| Earnings (loss) | | |
| Earnings (loss) for the purposes of basic and diluted earnings per share | 9,153 | (1,755) |

**Number of shares**

| | 2006 | 2005 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 3,307,490,057 | 3,287,423,186 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 137,911,873 | |
| Warrants | 15,169 | |
| Convertible bonds | – | |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 3,445,417,099 | |

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in profit per share.

The diluted loss per share for the year ended 31st March 2005 was not presented as the exercise of the share options and warrants outstanding would result in a decrease in loss per share.

## 15. EARNINGS (LOSS) PER SHARE *(Continued)*

Impact of changes in accounting policies and the restatement of figures for 2005:

Changes in the Group's accounting policies and the restatement of figures 2005 during the year are described in detail in note 3. To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on both basic and diluted earnings per share:

| | Impact on basic earnings (loss) per share | | Impact on diluted earnings (loss) per share |
|---|---|---|---|
| | **2006** | **2005** | **2006** |
| | HK cents | HK cents | HK cents |
| Figures before adjustments | 0.77 | 0.77 | 0.74 |
| Adjustments arising from changes in accounting policies | (0.49) | (0.24) | (0.47) |
| Adjustments arising from deemed contribution arising from acquisition of interest in an associate from a shareholder (note 3) | – | (0.58) | – |
| As reported | 0.28 | (0.05) | 0.27 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improvements, furniture and equipment HK$'000 | Computer and special equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1st April 2004 | 1,154 | 3,531 | 63,074 | 5,716 | 4,936 | 78,411 |
| Additions | – | 5,260 | 7,855 | 1,973 | 7,240 | 22,328 |
| Disposals | – | – | (97) | (173) | – | (270) |
| Acquired on acquisition of additional interest in a jointly controlled entity | 85 | 120 | 2,753 | 99 | 439 | 3,496 |
| Disposal of subsidiaries | – | (1,076) | (1,340) | (477) | – | (2,893) |
| At 31st March 2005 | 1,239 | 7,835 | 72,245 | 7,138 | 12,615 | 101,072 |
| Currency realignment | 21 | 80 | 1,115 | 266 | 222 | 1,704 |
| Additions | – | 6,341 | 5,378 | 629 | 13,877 | 26,225 |
| Disposals | – | (30) | (4,693) | (90) | – | (4,813) |
| Transfers | – | – | 4,708 | – | (4,708) | – |
| **At 31st March 2006** | **1,260** | **14,226** | **78,753** | **7,943** | **22,006** | **124,188** |
| DEPRECIATION | | | | | | |
| At 1st April 2004 | 193 | 1,139 | 28,962 | 3,450 | – | 33,744 |
| Provided for the year | 40 | 2,174 | 9,284 | 1,021 | – | 12,519 |
| Eliminated on disposals | – | – | (72) | (147) | – | (219) |
| Eliminated on disposal of subsidiaries | – | (770) | (1,151) | (238) | – | (2,159) |
| At 31st March 2005 | 233 | 2,543 | 37,023 | 4,086 | – | 43,885 |
| Currency realignment | 5 | 48 | 807 | 222 | – | 1,082 |
| Provided for the year | 41 | 2,359 | 7,076 | 1,187 | – | 10,663 |
| Eliminated on disposals | – | (21) | (1,084) | (35) | – | (1,140) |
| **At 31st March 2006** | **279** | **4,929** | **43,822** | **5,460** | **–** | **54,490** |
| CARRYING VALUES | | | | | | |
| **At 31st March 2006** | **981** | **9,297** | **34,931** | **2,483** | **22,006** | **69,698** |
| At 31st March 2005 | 1,006 | 5,292 | 35,222 | 3,052 | 12,615 | 57,187 |

Land and buildings are held under medium leases outside Hong Kong.

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Items of property, plant and equipment are depreciated on a straight line basis, over their estimated useful lives as follows:

| | |
|---|---|
| Land and buildings | 50 years or over the unexpired period of leases, where shorter |
| Leasehold improvements, furniture and equipment | 5 to 20 years |
| Computer and special equipment | 2 to 10 years |
| Motor vehicles | 5 to 10 years |

## 17. INTEREST IN AN ASSOCIATE

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Cost of investment in unlisted shares | **57,345** | 57,345 |
| Contribution from a shareholder | **19,215** | 19,215 |
| Share of post-acquisition profit | **9,725** | – |
| Currency realignment | **102** | – |
| | **86,387** | 76,560 |

| **Name of the company** | **Place of registration** | **Attributable interest held by the Group** | **Principal activity** |
|---|---|---|---|
| Dongfang Customs Technology Company Limited ("東方口岸科技有限公司") | PRC | 30% | Operation of a platform for electronic customs processing |

## 17. INTEREST IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the associate is set out below:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Total assets | **381,717** | 297,204 |
| Total liabilities | **(93,760)** | (42,003) |
| Net assets | **287,957** | 255,201 |
| Group's share of net assets of the associate | **86,387** | 76,560 |
| Turnover | **79,783** | N/A |
| Profit for the year | **32,416** | N/A |
| Group's share of result of associate for the year | **9,725** | N/A |

## 18. LOAN RECEIVABLE

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

As at 31st March 2006, the fair value of the Group's share of the loan receivable was HK$25,664,000, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date. The difference between the fair value and carrying amount of the Group's share of the loan receivable of HK$1,246,000 is charged to income statement for the year ended 31st March 2006.

## 19. AVAILABLE-FOR-SALE INVESTMENTS

| | **2006** |
|---|---|
| | **HK$'000** |
| Unlisted equity securities | **569** |
| Unlisted club debenture | **7,168** |
| | **7,737** |

The amounts represent unlisted club debenture and equity securities. In the opinion of directors, their fair values approximate to the carrying amount.

## 20. OTHER INVESTMENTS

Investment securities as at 31st March 2005 are set out below. Upon the adoption of HKAS 39 on 1st April 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see note 3 for details).

| | 2005 |
|---|---|
| | HK$'000 |
| Unlisted equity securities | 560 |
| Unlisted club debenture | 7,168 |
| | 7,728 |

## 21. OTHER NON-CURRENT ASSETS

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Restricted bank deposits (note 25) | **–** | 1,057 |

## 22. INVENTORIES

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| General merchandise goods | **1,532** | 703 |

## 23. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Cost incurred plus attributable profits less foreseeable losses | **75,479** | 29,924 |
| Progress billings | **(45,011)** | (26,673) |
| | **30,468** | 3,251 |

## 24. DEBTORS AND PREPAYMENTS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Trade receivables | **130,765** | 123,938 |
| Other receivables (Note) | **22,370** | 5,009 |
| Deposits and prepayments | **39,609** | 37,196 |
| | **192,744** | 166,143 |

Note: Other receivables included an interest free advance to Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") of the PRC, in order for AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK$17,280,000). The amount is repayable on demand.

## 24. DEBTORS AND PREPAYMENTS *(Continued)*

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:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 90 days | **100,808** | 73,564 |
| 90 – 180 days | **20,281** | 23,705 |
| 180 – 360 days | **6,003** | 8,418 |
| Over 360 days | **3,673** | 18,251 |
| | **130,765** | 123,938 |

The carrying amount of the Group's debtors at 31st March 2006 approximates to the corresponding fair value.

## 25. BANK BALANCES AND CASH

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Not restricted | **591,921** | 131,266 |
| Restricted (Note) | **1,057** | 6,057 |
| | **592,978** | 137,323 |
| Restricted bank deposits included in non-current assets (note 21) | **–** | (1,057) |
| | **592,978** | 136,266 |

Bank balances comprise short-term bank deposits at interest rates ranged from 1.73% to 5.16% during the year. The fair value of these assets at 31st March 2006 approximates to the corresponding carrying amount.

Included in the bank balances are Renminbi short-term bank deposits of HK$48,723,000 (2005: HK$22,120,000) kept in financial institutions and banks registered in the PRC, and the Renminbi is not a freely convertible currency.

Note: At 31st March 2005, deposits amounting to HK$5,000,000 were pledged to secure a short-term bank loan and were therefore classified as current assets. The remaining deposits amounting to HK$1,057,000 were pledged to secure certain bank facilities granted to the Group up to 8th April 2006 and were therefore classified as non-current assets. As at 31st March 2006, the HK$1,057,000 deposits are classified as current assets.

## 26. CREDITORS AND ACCRUALS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Trade payables | **65,859** | 75,691 |
| Other payables and accruals | **31,774** | 36,823 |
| Dividend payable | **–** | 5,791 |
| | **97,633** | 118,305 |

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| 0 – 90 days | **44,230** | 43,280 |
| 90 – 180 days | **9,465** | 3,352 |
| 180 – 360 days | **1,709** | 2,289 |
| Over 360 days | **10,455** | 26,770 |
| | **65,859** | 75,691 |

The carrying amount of the Group's creditors and accruals at 31st March 2006 approximates to the corresponding fair value.

## 27. SHORT-TERM BANK LOANS

During the year ended 31st March 2006, Beijing Honglian 95 Information Industries Company Limited ("HL95"), a jointly controlled entity of the Group obtained a bank loan of RMB25,000,000 (equivalent to HK$24,000,000) secured by corporate guarantee by another joint venture partner. The loan carries fixed interest rate at 4.88% per annum and due for payment on June 2006. As at 31st March 2006, the Group's 49% interest in HL95 is equivalent to short-term bank loans of HK$11,760,000 as stated in the consolidated balance sheet.

The fair value of the Group's bank borrowings at 31st March 2006 approximates to the corresponding carrying amount in view of the short maturity period.

## 28. 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 Bonds are unsecured and denominated in United States dollars. The Bonds entitle the holders to convert them into ordinary shares of the Company at any time between 15th February 2006 and 14th December 2010 at an initial conversion price of HK$1.36 per share subject to adjustments. The conversion price will be adjusted downwards on each anniversary date of issue to the ten-day average price immediately prior to the reset date multipled by 125% if such reset price is less than the conversion price in effect; and adjusted downwards to the ten-day average price immediately prior to the date of the conversion notice delivered by the bondholders multipled by 94% if such price is less than the conversion price in effect. If the Bonds have not been converted, they will be redeemed at amount as determined by the terms of the Bonds. Please refer to the Company's circular dated 23rd December 2005 for the details of the terms of the Bonds.

The Company incurred one-off expenses of HK$26,480,000 for the issuance of the Bonds. Such expenses have been recognised in the income statement for the year.

The functional currency of the Company is Hong Kong dollars and the conversion option of these Bonds is denominated in US dollars. Since the conversion price for the Bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instrument. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the Bonds do not contain any equity component and the entire Bonds were designated as "financial liabilities at fair value through profit or loss" which requires the Bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognised in the income statement. During the year, a loss on change in its fair value of HK$1,420,000 is recognised in the income statement.

The fair value of the Bonds was calculated using the market value basis. The inputs into the model were as follows:

| | |
|---|---|
| Stock price | HK$1.13 |
| Expected volatility | 45% |
| Stock borrow cost | 5% |
| Issuer's credit spread | 10% |
| Expected dividend yield | 0% |

## 29. SHARE CAPITAL

| | Number of ordinary shares | HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 each | | |
| – at 1st April 2004, 31st March 2005 and 31st March 2006 | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each | | |
| – at 1st April 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 options | 4,200,004 | 42 |
| – exercise of share warrants | 52,417 | – |
| **– at 31st March 2006** | **3,308,628,417** | **33,086** |

On 25th February 2005, the Company issued 550,697,664 warrants at the issue price of HK$0.10 per warrant on the basis of one warrant for every six existing shares held on 25th February 2005. The warrants will mature in 18 months from the date of issue. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.01 each at an exercise price of HK$2.40 per share, payable in cash and subject to adjustment, at any time from 18th March 2005 to 17th September 2006. Consideration, net of transaction cost of HK$52,450,308 was received in respect of the warrants granted during the previous year. During the year, 52,417 warrants were exercised at conversion price of HK$2.40 for a cash consideration of HK$125,801 resulting in the issue of 52,417 new shares of HK$0.01 each.

## 30. RESERVES

Contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the surplus arising from the reduction of share capital. Under The Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. The Company has no distributable reserves at 31st March 2006 and 2005.

Capital reserve represents the deemed capital contribution from a shareholder, CITIC Group, made on the acquisition of the associate, Dongfang Customs, from that shareholder during the year ended 31st March 2005.

General reserve represents the share of PRC statutory reserves from jointly controlled entities. PRC statutory reserves are required to be maintained under the relevant PRC laws applicable to the jointly control entities of the Group.

The accumulated losses of the Group include profit of HK$9,725,000 (2005: nil) attributable to the associate of the Group.

## 31. SHARE OPTION

The Company operates share option schemes under which options are granted to individuals as incentive or rewards for their contribution or potential contribution to the Group. At the annual general meeting of the Company held on 30th August 2002, the shareholders of the Company approved and adopted a new share option scheme (the "Scheme") and termination of the then existing scheme which was approved at a Special General Meeting of the Company on 28th May 1998. Under the Scheme, the Directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, ten per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Scheme. All outstanding options granted under the previous scheme remain valid and exercisable in accordance with their terms of issue. Movements in the number of share options during the year are as follows:

| Exercisable period | Exercise price | Outstanding at 1.4.2004 | Granted during the year ended 31.3.2005 | Exercised during the year ended 31.3.2005 | Lapsed during the year ended 31.3.2005 | Outstanding at 31.3.2005 | Granted during the year ended 31.3.2006 | Exercised during the year ended 31.3.2006 | Lapsed during the year ended 31.3.2006 | Outstanding at 31.3.2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| | HK$ | | | | | | | | | |
| **Directors of the Company, including ex-Director:** | | | | | | | | | | |
| 13.1.2001 – 27.5.2008 | 0.9900 | 21,000,000 | – | – | – | 21,000,000 | – | – | – | 21,000,000 |
| 13.7.2001 – 27.5.2008 | 0.9900 | 21,000,000 | – | – | – | 21,000,000 | – | – | – | 21,000,000 |
| 13.7.2002 – 27.5.2008 | 0.9900 | 28,000,000 | – | – | – | 28,000,000 | – | – | – | 28,000,000 |
| 10.9.2004 – 23.6.2013 | 0.3220 | 30,000,000 | – | – | – | 30,000,000 | – | – | – | 30,000,000 |
| 10.3.2005 – 23.6.2013 | 0.3220 | 30,000,000 | – | – | – | 30,000,000 | – | – | – | 30,000,000 |
| 10.9.2005 – 23.6.2013 | 0.3220 | 30,000,000 | – | – | – | 30,000,000 | – | – | – | 30,000,000 |
| 24.6.2004 – 23.6.2013 | 0.3220 | 28,693,332 | – | (12,026,666) | (5,000,000) | 11,666,666 | – | – | – | 11,666,666 |
| 24.12.2004 – 23.6.2013 | 0.3220 | 28,693,332 | – | (1,666,666) | (15,360,000) | 11,666,666 | – | – | – | 11,666,666 |
| 24.6.2005 – 23.6.2013 | 0.3220 | 28,693,336 | – | – | (15,360,000) | 13,333,336 | – | (1,666,668) | – | 11,666,668 |
| 23.3.2006 – 23.3.2015 | 3.1750 | – | 10,000,000 | – | – | 10,000,000 | – | – | – | 10,000,000 |
| 23.3.2007 – 23.3.2015 | 3.1750 | – | 10,000,000 | – | – | 10,000,000 | – | – | – | 10,000,000 |
| 23.3.2008 – 23.3.2015 | 3.1750 | – | 10,000,000 | – | – | 10,000,000 | – | – | – | 10,000,000 |
| | | 246,080,000 | 30,000,000 | (13,693,332) | (35,720,000) | 226,666,668 | – | (1,666,668) | – | 225,000,000 |

The vesting period ends on the date the exercisable period of the share options begins.

## 31. SHARE OPTION *(Continued)*

| Exercisable period | Exercise price HK$ | Outstanding at 1.4.2004 | Granted during the year ended 31.3.2005 | Exercised during the year ended 31.3.2005 | Lapsed during the year ended 31.3.2005 | Outstanding at 31.3.2005 | Granted during the year ended 31.3.2006 | Exercised during the year ended 31.3.2006 | Lapsed during the year ended 31.3.2006 | Outstanding at 31.3.2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Employees:** | | | | | | | | | | |
| 13.1.2001 – 27.5.2008 | 0.9900 | 1,065,000 | – | (1,065,000) | – | – | – | – | – | – |
| 13.7.2001 – 27.5.2008 | 0.9900 | 1,065,000 | – | (1,005,000) | – | 60,000 | – | (60,000) | – | – |
| 13.7.2002 – 27.5.2008 | 0.9900 | 1,420,000 | – | (1,080,000) | – | 340,000 | – | (140,000) | – | 200,000 |
| 20.11.2001 – 27.5.2008 | 0.7920 | 2,400,000 | – | – | – | 2,400,000 | – | – | (2,400,000) | – |
| 20.11.2002 – 27.5.2008 | 0.7920 | 2,400,000 | – | – | – | 2,400,000 | – | – | (2,400,000) | – |
| 20.11.2003 – 27.5.2008 | 0.7920 | 3,200,000 | – | – | – | 3,200,000 | – | – | (3,200,000) | – |
| 13.1.2003 – 27.5.2008 | 0.3304 | 60,000 | – | (60,000) | – | – | – | – | – | – |
| 13.7.2003 – 27.5.2008 | 0.3304 | 60,000 | – | (60,000) | – | – | – | – | – | – |
| 13.7.2004 – 27.5.2008 | 0.3304 | 440,000 | – | (440,000) | – | – | – | – | – | – |
| 24.6.2004 – 23.6.2013 | 0.3220 | 26,306,667 | – | (2,333,332) | (23,973,333) | 2 | – | (2) | – | – |
| 24.12.2004 – 23.6.2013 | 0.3220 | 26,306,667 | – | (2,333,332) | (23,973,333) | 2 | – | (2) | – | – |
| 24.6.2005 – 23.6.2013 | 0.3220 | 26,306,666 | – | – | (23,973,334) | 2,333,332 | – | (2,333,332) | – | – |
| 22.9.2005 – 22.10.2005 | 1.2300 | – | 8,000,000 | – | (3,666,666) | 4,333,334 | – | – | (4,333,334) | – |
| 22.9.2006 – 22.10.2006 | 1.2300 | – | 8,000,000 | – | (3,666,666) | 4,333,334 | – | – | (2,533,334) | 1,800,000 |
| 22.9.2007 – 22.10.2007 | 1.2300 | – | 8,000,000 | – | (3,666,668) | 4,333,332 | – | – | (2,533,332) | 1,800,000 |
| 6.1.2006 – 31.1.2015 | 2.2550 | – | 1,333,333 | – | – | 1,333,333 | – | – | (1,333,333) | – |
| 6.1.2007 – 31.1.2015 | 2.2550 | – | 1,333,333 | – | – | 1,333,333 | – | – | (1,333,333) | – |
| 6.1.2008 – 31.1.2015 | 2.2550 | – | 1,333,334 | – | – | 1,333,334 | – | – | (1,333,334) | – |
| 5.1.2006 – 31.1.2015 | 2.2550 | – | 1,000,000 | – | – | 1,000,000 | – | – | – | 1,000,000 |
| 5.1.2007 – 31.1.2015 | 2.2550 | – | 1,000,000 | – | – | 1,000,000 | – | – | – | 1,000,000 |
| 5.1.2008 – 31.1.2015 | 2.2550 | – | 1,000,000 | – | – | 1,000,000 | – | – | – | 1,000,000 |
| 2.9.2005 – 1.3.2015 | 2.5250 | – | 2,766,666 | – | – | 2,766,666 | – | – | (2,066,666) | 700,000 |
| 2.9.2006 – 1.3.2015 | 2.5250 | – | 2,766,666 | – | – | 2,766,666 | – | – | (2,066,666) | 700,000 |
| 2.3.2008 – 1.3.2015 | 2.5250 | – | 2,766,668 | – | – | 2,766,668 | – | – | (2,066,668) | 700,000 |
| 2.3.2006 – 1.3.2015 | 2.5250 | – | 200,000 | – | – | 200,000 | – | – | (200,000) | – |
| 2.3.2007 – 1.3.2015 | 2.5250 | – | 200,000 | – | – | 200,000 | – | – | (200,000) | – |
| 2.3.2008 – 1.3.2015 | 2.5250 | – | 200,000 | – | – | 200,000 | – | – | (200,000) | – |
| 2.3.2009 – 1.3.2015 | 2.5250 | – | 200,000 | – | – | 200,000 | – | – | (200,000) | – |
| 2.3.2010 – 1.3.2015 | 2.5250 | – | 200,000 | – | – | 200,000 | – | – | (200,000) | – |
| 10.3.2006 – 9.3.2015 | 2.9250 | – | 1,000,000 | – | – | 1,000,000 | – | – | (1,000,000) | – |
| 10.3.2007 – 9.3.2015 | 2.9250 | – | 1,000,000 | – | – | 1,000,000 | – | – | (1,000,000) | – |
| 23.3.2006 – 22.3.2015 | 3.1750 | – | 200,000 | – | – | 200,000 | – | – | – | 200,000 |
| 23.3.2007 – 22.3.2015 | 3.1750 | – | 200,000 | – | – | 200,000 | – | – | – | 200,000 |
| 23.3.2008 – 22.3.2015 | 3.1750 | – | 200,000 | – | – | 200,000 | – | – | – | 200,000 |
| 23.3.2009 – 22.3.2015 | 3.1750 | – | 200,000 | – | – | 200,000 | – | – | – | 200,000 |
| 23.3.2010 – 22.3.2015 | 3.1750 | – | 200,000 | – | – | 200,000 | – | – | – | 200,000 |
| 1.6.2006 – 30.6.2006 | 2.1750 | – | – | – | – | – | 3,133,333 | – | (200,000) | 2,933,333 |
| 1.6.2007 – 30.6.2007 | 2.1750 | – | – | – | – | – | 3,133,333 | – | (200,000) | 2,933,333 |
| 1.6.2008 – 30.6.2008 | 2.1750 | – | – | – | – | – | 3,133,334 | – | (200,000) | 2,933,334 |
| 1.6.2009 – 30.6.2009 | 2.1750 | – | – | – | – | – | 800,000 | – | (200,000) | 600,000 |
| 1.6.2010 – 30.6.2010 | 2.1750 | – | – | – | – | – | 800,000 | – | (200,000) | 600,000 |
| | | 91,030,000 | 43,300,000 | (8,376,664) | (82,920,000) | 43,033,336 | 11,000,000 | (2,533,336) | (31,600,000) | 19,900,000 |
| Total | | 337,110,000 | 73,300,000 | (22,069,996) | (118,640,000) | 269,700,004 | 11,000,000 | (4,200,004) | (31,600,000) | 244,900,000 |

## 31. SHARE OPTION *(Continued)*

In respect of the share options exercised during the year, the share price at the dates of exercise is ranging from HK$2.125 to HK$2.375 (2005: ranging from HK$0.75 to HK$3.33).

During the year ended 31st March 2006, share options were granted on 1st June 2005. The estimated average fair values of the share options granted on that date are HK$0.330. During the year ended 31st March 2005, share options were granted on 22nd September 2004, 1st February 2005, 2nd March 2005, 10th March 2005 and 23rd March 2005. The estimated average fair values of the share options granted on those dates are HK$0.238, HK$0.374, HK$0.399, HK$0.590 and HK$0.584 respectively.

In determining the share option benefit expense, management appointed Vigers Appraisal and Consulting Limited which used the Binomial model to provide a valuation report of the share option benefit expense. The Company has used the Binomial model (the "Model") with the consideration of vesting period and possible exercise pattern to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of the share option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Details of the fair values of share options determined at the date of grant on 1st June 2005 using the Model with the inputs are as follows:

| | **1st June 2005** |
|---|---|
| Share price | HK$2.15 |
| Exercise price | HK$2.175 |
| Expected volatility | 70% |
| Expected life | 2.69 years |
| Risk-free rate | 3.090% |
| Expected dividend yield | 0% |
| Exit rate | 40% |
| Exercise multiple | 1.3 |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised expense of HK$16,046,000 for the year ended 31st March 2006 (2005: HK$7,960,000) in relation to share options granted by the Company.

## 32. ACQUISITION OF A JOINTLY CONTROLLED ENTITY

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Net assets acquired | | |
| Property, plant and equipment | – | 3,496 |
| Other investments | – | 2 |
| Inventories | – | 12 |
| Debtors and prepayments | – | 3,413 |
| Bank balances and cash | – | 4,657 |
| Creditors and accruals | – | (3,638) |
| Taxation payable | – | (316) |
| Short-term bank loans | – | (3,358) |
| Minority interests | – | (559) |
| | – | 3,709 |
| Discount on acquisition | – | (491) |
| Cash consideration | – | 3,218 |
| Bank balances and cash acquired | – | (4,657) |
| Net cash inflow on acquisition | – | (1,439) |

## 33. JOINT VENTURES

The Group has the following significant interests in joint ventures:

| Name of entity | Place of incorporation/ operations | Nominal value of issued and fully paid ordinary share/ registered capital | Effective percentage of interest held by the Group | Principal activities |
|---|---|---|---|---|
| Beijing Honglian 95 Information Industries Company Limited ("北京鴻聯九五信息產業有限公司") | PRC | RMB60,000,000 | 49% | Provision of telecommunications/ information value added services |
| China Credit Information Technology Company Limited ("CCIT") ("中信國檢信息技術有限公司") | PRC | RMB60,000,000 | 50% | Provision of product identification, authentication, tracking system business |

The following amounts are included in the Group's financial statements as a result of the proportionate consolidation of the above joint ventures:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Current assets | **153,450** | 77,022 |
| Non-current assets | **61,996** | 52,632 |
| Current liabilities | **64,768** | 57,528 |

## 33. JOINT VENTURES *(Continued)*

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Income | **300,817** | 189,767 |
| Expenses | **272,581** | 163,011 |
| Taxation | **7,039** | 5,333 |

During the year, the Group incurred pre-operating expenses of HK$1,207,000 relating to the formation of CCIT and recorded as an expense in the income statement for the year ended 31st March 2006.

## 34. DISPOSAL OF SUBSIDIARIES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Net liabilities disposed of | | |
| Property, plant and equipment | – | 734 |
| Inventories | – | 72 |
| Debtors and prepayments | – | 3,444 |
| Taxation recoverable | – | 529 |
| Bank balances and cash | – | 250 |
| Creditors and accruals | – | (10,824) |
| Short-term bank loans | – | (5,250) |
| | – | (11,045) |
| Release of reserves | | |
| Translation reserve | – | (1,332) |
| General reserve | – | (65) |
| Gain on disposal | – | 13,103 |
| Cash consideration | – | 661 |
| Bank balances and cash disposed of | – | (250) |
| Net cash inflow on disposal of subsidiaries | – | 411 |

## 35. OPERATING LEASE COMMITMENTS

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **11,330** | 3,356 |
| In the second to fifth year inclusive | **8,221** | 2,637 |
| | **19,551** | 5,993 |

Leases are negotiated for an average term of two years.

## 36. CAPITAL COMMITMENTS

During the year, the Group entered into an agreement with Hebei Television Station China to form a joint venture, with an intention to engage in, among others, development of digital television business, of which the Group will hold a 49% interest. The registered capital of the join venture company will be RMB70,000,000 (equivalent to HK$67,200,000), and the Group will contribute RMB34,300,000 (equivalent to HK$32,928,000).

## 37. RETIREMENT BENEFITS SCHEMES

**Defined contributed plans**

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

The Group (including its subsidiaries and jointly controlled entities) also participates in the employees' pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

## 38. RELATED PARTY TRANSACTIONS

Save as disclosed above, 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 year:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Acquisition of a further 4% interest in a jointly controlled entity (note a) | **–** | 3,028 |
| Acquisition of 30% interest in an associate | **–** | 56,636 |
| Interest expense | **–** | 124 |
| System integration and software development income (note b) | **17,714** | – |
| Telecommunications/information value-added services agency fee (note c) | **6,718** | 7,170 |

(a) The Group entered into an agreement on 13th February 2004 to acquire an additional 4% equity interest in HL95, a jointly controlled entity, from CITIC Guoan Information Industries Company Limited, a related company, at the consideration of HK$3,028,000. The acquisition was completed on 2nd June 2004.

(b) System integration and software development services are provided by a wholly owned subsidiary of the Group, Guangdong Grand Cycle Technology Company Limited, to two jointly controlled entities, HL95 and CCIT. The services are conducted at terms as set out in the agreements entered into between the respective parties.

(c) 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% equity interest in Dongfang Customs directly and 20% equity interest in CCIT indirectly.

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CITIC Group which is controlled by the PRC government. Apart from the transactions with related parties disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

## 38. RELATED PARTY TRANSACTIONS *(Continued)*

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions with other state-controlled entities are as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Telecommunications/information value-added services agency fee (note d) | **37,471** | 28,184 |

(d) The Group pays agency fee to China Mobile, China Unicom and China Netcom for providing telecommunications/information value-added services through their network and receiving service charges from customers through them.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

## 39. LITIGATION

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

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which, excluding those explained below, are limited liability companies, at 31st March 2006 are as follows:

| Name of subsidiary | Place of incorporation/ operations | Nominal value of issued and fully paid ordinary share/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| 21CN Advertising Agency Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | – | Investment holding |
| CITIC 21CN Telecom Company Limited | Hong Kong | HK$1,000,000 | – | 100% | System integration and software development |
| Guangdong Grand Cycle Technology Company Limited | PRC | HK$21,000,000 | – | 100% | System integration and software development for a term of 50 years commencing December 2002 |

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group and to give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## 41. SUBSEQUENT EVENT

On 30th May 2006 the Group entered into a license and services agreement with Beijing Oracle Software Systems Co., Ltd. ("Oracle") in which the Group acquired database management software and middleware from Oracle.

The contract sum consists of the license fees and the support fees as detailed below to be payable in cash:

| **Fee types** | **Amount** |
|---|---|
| | RMB'000 |
| License fees | 72,203 |
| Support fees | 15,885 |
| | 88,088 |

License fees are paid for obtaining the unlimited deployment right of Oracle database management software and middleware. Support fees are paid for the first year for technical support on the database management software and middleware.