CITIC 21CN
中信 21世紀
CITIC 21CN COMPANY LIMITED
中信21世紀有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0241)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

The Board of Directors (the "**Board**") of CITIC 21CN COMPANY LIMITED (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2005

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

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

* *for identification purposes only*

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30th September 2005 (Unaudited) HK$'000	31st March 2005 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**59,840**	57,187
Interest in an associated company		**83,530**	76,560
Goodwill		**1,359**	–
Other investments		**8,322**	7,728
Other non-current assets		**438**	1,057
		153,489	142,532
Current assets			
Inventories and contracts in progress		**4,332**	3,954
Debtors and prepayments	*8*	**214,040**	166,143
Taxation recoverable		**21**	251
Cash and bank balances		**125,962**	136,266
		344,355	306,614
Current liabilities			
Creditors and accruals	*9*	**130,421**	118,305
Taxation payable		**4,928**	3,177
Short-term loans		**20,560**	11,583
		155,909	133,065
Net current assets		**188,446**	173,549
Total assets less current liabilities		**341,935**	316,081
Capital and reserves			
Equity attributable to the Company's equity holders			
Share capital		**33,086**	33,044
Reserves		**303,455**	275,743
		336,541	308,787
Minority interests		**5,394**	7,294
		341,935	316,081

Notes:

1. **Basis of preparation and accounting policies**

These unaudited condensed consolidated interim financial statements for the six months ended 30th September 2005 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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

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

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

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

2. **Changes in accounting policies**

Effect of adopting new HKFRSs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Segmental information

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

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

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

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

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

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

4. Other revenues

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

5. Operating profit

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

6. Taxation

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

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

7. Earnings per share

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

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

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

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

8. Debtors and prepayments

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

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

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

9. Creditors and accruals

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

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

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

FINANCIAL REVIEW

The key financial figures of the Group for the six months ended 30th September 2005 and the comparative figures of the corresponding period in year 2004 were summarized as follows:

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

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

– **Turnover**

The increase was mainly due to the following reasons:

(a) The operating results of 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) ("HL95"), a 49%-owned jointly controlled entity of the Group, were proportionately consolidated into the Group's consolidated profit and loss account. In current period, the Group's share of the turnover of HL95 increased from HK$109.8 million in last period to HK$137.9 million in current period, representing a growth of 25.7%, primarily thanks to the increase in revenues from fixed-line interactive voice response system ("IVRS") and short messaging services ("SMS") as a result of the increasing popularity of the usage of IVRS and SMS in the PRC; and

(b) Sales of network equipment increased by 311.2% from HK$16.1 million in last period to HK$66.2 million in current period as a result of the marketing efforts of the Group.

– **Gross profit percentage**

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

– **Net profit**

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

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

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

(a) Increase in turnover as explained above; and

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

SIGNIFICANT INVESTMENT AND CAPITAL EXPENDITURE

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

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

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

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

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

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

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

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

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

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

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

The Group's operation and transactions are principally located in the PRC and all assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi. The Directors believe that there will not be material fluctuation in the exchange rate of Renminbi in the foreseeable future and the operations of the Group are not subject to significant exchange rate risk.

BUSINESS REVIEW

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

- **HL95**

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

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

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

- **Dongfang Customs**

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

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

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

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

- **QSIT**

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

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

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

  Future prospect
  The Directors believe PIATS will be met with strong demand from the consumers and manufacturers alike due to the rampant forgeries in the PRC.

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

- **CITIC 21CN Telecom (Formerly known as Grand Cycle International Limited)**
  CITIC 21CN Telecom engages in system integration and software development.

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

- **Hebei TV**
  Hebei TV is in the process of formation.

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

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

Total staff costs of the Group for the period were HK$65,359,000 in which HK$41,606,000 and HK$2,076,000 were the portions attributable to the Group in HL95 and QSIT respectively. All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

The Group's policy is to maintain a competitive pay structure and employees are rewarded on a performance related basis.

The Group has also set up share option schemes pursuant to which employees of the Group may be granted options to subscribe for the Company's shares at their absolute discretion. The subscription price, exercise period and the number of options to be granted are determined in accordance with the prescribed terms of the schemes. During the six months ended 30th September 2005, a total of 11,000,000 share options were granted to 5 employees and other eligible persons.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities of the Company during the period under review. Neither the Company nor any of its subsidiaries has purchased or sold any of listed securities of the Company during the period under review.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the accounting period under review, except for the deviations from code provisions A.4.1, A.4.2 and E.I.2 of the Code as described below.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office. However, the non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All directors except the Chairman of the Company are subject to retirement by rotation pursuant to the Company's Bye-Laws. According to the Company's Bye-Laws, one-third of the directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office at each annual general meeting. The relevant provisions of the Company's Bye-Laws will be reviewed and amendment will be proposed if necessary, to ensure full compliance with code provision A.4.2 of the Code.

Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend annual general meetings. The Chairman of the Board did not attend the annual general meeting of the Company held on 19th August 2005 as he had another business engagement.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

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

PUBLICATION OF INTERIM RESULT ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

An interim result containing all the information required by Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course (http://www.hkex.com.hk).

By Order of the Board
CITIC 21CN COMPANY LIMITED
Chen Xiao Ying
Executive Vice Chairman

Hong Kong, 8th December 2005

As at the date of this announcement, the Board comprises nine directors, of which (i) six are executive directors, namely Mr. Wang Jun, Ms. Chen Xiao Ying, Mr. Luo Ning, Mr. Sun Yalei, Mr. Zhang Lian Yang and Ms. Xia Guilan; and (ii) three are independent non-executive directors, namely Mr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Liu Hongru.