CITIC 21CN
中信 21世紀

ANNUAL REPORT
06

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 241

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jun *(Chairman)*
Ms. CHEN Xiao Ying *(Executive Vice Chairman)*
Mr. LUO Ning *(Vice Chairman)*
Mr. SUN Yalei
Mr. ZHANG Lian Yang
Ms. XIA Guilan

Independent Non-executive Directors

Mr. HUI Ho Ming, Herbert, JP
Mr. ZHANG Jian Ming
Mr. LIU Hongru

COMPANY SECRETARY

Mr. YEE Foo Hei, ACS, ACIS, FCCA

QUALIFIED ACCOUNTANT

Mr. HUI Man Chun, ACCA, CPA

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

241

LEGAL ADVISORS

Hong Kong

David Lo & Partners

Bermuda

Appleby Spurling Hunter

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

CHAIRMAN'S STATEMENT

During the past year, CITIC 21CN COMPANY LIMITED ("CITIC 21CN" or the "Company") witnessed significant growth in various businesses. Much progress has been made in the exploration of new businesses and the overall development of the Company and its subsidiaries ("the Group") is favourable.

Product Identification, Authentication, Tracking System ("PIATS") is a new pivotal business of CITIC 21CN and all our efforts devoted to the development of the business have bore fruit, with the construction of the fundamental platform progressing steadily. In order to develop the PIATS platform into a key integrated information service platform of the country, we are building a database which can enable 2 million enterprises to join and has a network handling capacity that can accept 4 billion enquiries each day, in order to satisfy the needs of future business development. The trial operation of PIATS in Hebei has been successful. In September 2005, 國家質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine) ("AQSIQ") launched the trial operation of PIATS in Hebei. Rapid progress has been made in all areas of work, and extensive operating experience has been acquired. After inspecting the trial operation in Hebei and listening to reports, numerous Chinese government leaders gave their recognition to the construction of PIATS and the success of its trial operation in Hebei.

In March 2006, PIATS was officially activated and implemented on a nationwide basis. Under the coordination and active promotion of AQSIQ, the PIATS platform was deployed to monitor product production electronically in the "Hundreds and Ten Thousands Project". By 2010, all products in the country which are eligible to join the network will join and an enquiry terminal system covering numerous urban and rural areas will be established.

On 18 July 2006, 128 renowned enterprises in the country including Haier, Tsingtao Brewery, Wu Liang Ye, Moutai Liquor, Shine Way and Hainan Coconut Palm (Hainan Yeshu Coconut Juice) enter into contracts to join PIATS, signifying that PIATS has entered into a full implementation stage. In September 2006, one hundred large shopping malls and supermarkets in the country will enter into contracts to join PIATS to install enquiry terminals which will allow consumers to check product authenticity at point-of-sale.

In 2005, CITIC 21CN entered into a special drugs supervision services agreement with the State Food and Drug Administration. This will diversify the application of PIATS to the pharmaceutical drugs industry. The trial implementation of the project will commence in the fourth quarter of 2006. Meanwhile, the cooperation between PIATS and authorities such as the State Administration for Industry and Commerce and the Ministry of Agriculture has also commenced.

中國電信集團公司 (China Telecommunications Corporation) ("China Telecom") has already agreed to engage in strategic cooperation with the Company with regard to the construction and operation of PIATS. Oracle Corporation has also established a strategic cooperation partnership with the Company and will provide support for the construction of the system platform.

CITIC 21CN will take into serious consideration the needs of enterprises, provide information value-added services of distinguished quality, fully expand the functions of its integrated information service platform, provide tools for the government to monitor electronically product manufacturing, provide means through which enterprises can acquire market management information, provide product information enquiry services for consumers, so as to establish a leading position in the PRC information service sector through these services.

CHAIRMAN'S STATEMENT

北京鴻聯九五信息產業有限公司(Beijing Honglian 95 Information Industries Company Limited) ("HL 95") witnessed encouraging business growth in the past year. HL 95 is the Company's important business platform, through which the Company promotes the information services of PIATS throughout the country. The Company also provides information services or content of the Group's existing and new businesses through the platform of HL 95. We believe that as the Group continues to develop, the results of HL 95 will further improve.

東方口岸科技有限公司(Dongfang Customs Technology Company Limited) ("Dongfang Customs"), the Company's joint venture with the PRC Customs Department and China Telecom, is principally engaged in electronic customs processing. It is the only operator in China to provide electronic customs processing. The number of its users is expected to increase in line with the growth of the PRC economy, which will bring greater economic benefits.

廣東天圖科技有限公司(Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle") engages in system integration and software development. During the year, Grand Cycle has focused on projects with higher margins and larger contract sums, and provided technical support to HL95 and the PIATS platform. Grand Cycle will continue to expand its system integration and software development business and provide the corporations and customers with professional technical solutions.

Looking ahead, a more critical and important period for the construction of PIATS will begin in the second half of this year, providing a larger room for the continuous and rapid development of the business of CITIC 21CN. Leveraging on the Group's established high performance application platform and its provision of ever-improving services, we will proactively make progress according to the business development strategies and targets of the Group so as to enhance the standard of the Company's operational management, maximize its economic benefits, and in turn create greater return for the shareholders.

On behalf of the directors of the Company (the "Directors"), I would like to express my sincere gratitude for the strenuous support from all our shareholders, business partners, financial institutions, government authorities, our staff and parties from the society which support the development of the Company. We look forward to your continuous support in the future.

Wang Jun
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The key financial figures of the Group for the year ended 31st March 2006 and the comparative figures for the year ended 31st March 2005 were summarised as follows:

	2006	2005	Growth rate
	HK$'000	HK$'000	%
Turnover	**403,545**	249,058	62.0
Gross profit	**184,063**	102,059	80.3
Gross profit percentage	**45.6%**	41.0%	N/A
Other income	**7,492**	31,507	(76.2)
Share option expense	**16,046**	7,960	101.6
Convertible bonds issue expenses	**26,480**	–	N/A
Change in fair value of convertible bonds	**1,420**	–	N/A
Change in fair value of loan receivable	**1,246**	–	N/A
Start up expenses of a jointly controlled entity	**1,207**	–	N/A
Other administrative and operating expenses	**135,358**	117,982	14.7
Share of profit of an associate	**9,725**	–	N/A
Profit before interest, taxes, depreciation and amortisation	**33,039**	17,216	91.9
Profit before interest, taxes, depreciation, amortisation and before one-off expenses for the convertible bonds and start up expenses, and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**79,438**	25,176	215.5

FINANCIAL REVIEW *(Continued)*

	2006 HK$'000	2005 HK$'000	Growth rate %
Net profit (loss) attributable to shareholders	**9,153**	(1,755)	N/A
Net profit attributable to shareholders before one-off expenses for the convertible bonds and start up expenses, and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**55,552**	6,205	795.3
Basic earnings (loss) per share			
Net profit (loss) attributable to shareholders	**0.28 cents**	(0.05) cents	N/A
Net profit attributable to shareholders before one-off expenses for the convertible bonds and start up expenses, and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**1.68 cents**	0.19 cents	784.2
Diluted earnings per share			
Net profit attributable to shareholders	**0.27 cents**	N/A	N/A
Net profit attributable to shareholders before one-off expenses for the convertible bonds and start up expenses, and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**1.61 cents**	0.19 cents	747.4

FINANCIAL REVIEW *(Continued)*

Results

– *Turnover*

Turnover of the Group for the year surged substantially from HK$249,058,000 to HK$403,545,000 representing an increase of 62.0% as compared with previous year. The increase was mainly due to the following reasons:

(a) The operating results of HL95, a 49%-owned jointly-controlled entity of the Group, were proportionately consolidated into the Group's consolidated income statement. In the current year, the Group's share of the turnover of HL95 increased from HK$189,767,000 in the last year to HK$297,588,000 in the current year, representing a growth of 56.8%. The Group's share of the turnover of HL95 comprised HK$164,193,000 (2005: HK$64,521,000) from short messaging services ("SMS"), HK$73,099,000 from fixed-line interactive voice response system ("IVRS") (2005: HK$72,111,000), and HK$60,296,000 (2005: HK$53,135,000) from other value-added services such as Internet-protocol phone and call centres. The increase in revenues was primarily from SMS as a result of the HL95's cooperation with content providers to provide more SMS content to stimulate usage of SMS in quizzes and games, and the increasing popularity in downloading pictures and ring tones to the mobile phones; and

(b) Revenue from system integration and software development increased by 99.9% from HK$59,291,000 in the last year to HK$118,522,000 in the current year as a result of securing more contracts from China Mobile totalling approximately RMB80 million, and providing system integration and software development services to HL95 and 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT") as these affiliates upgrade or build up its telecommunication or database infrastructure.

– *Gross profit percentage*

The gross profit percentage of the Group during the year ended 31st March 2006 improved to 45.6% from 41.0% of the previous year mainly because of the increased margin in Grand Cycle, the Group's business unit engaged in software development and system integration services. During the year, Grand Cycle has focussed on projects with higher margins and larger contract sums.

– *Other income*

Other income of HK$7,492,000 principally comprised of interest income. In the year ended 31st March 2005, other income principally comprised gain on disposal of subsidiaries of HK$13,103,000 and recovery of bad debts of HK$10,000,000.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– *Share option expense*

Share option expense represents a non-cash expense recorded by the Group commencing in the current year in accordance with the requirements of a new accounting standard, Hong Kong Financial Reporting Standard ("HKFRS") 2 Share-based Payment. Under HKFRS 2 the fair value of share options granted to directors and employees of the Company are determined at the date of grant of the share options. Such fair value is expensed over the period from the date of grant of the share options to the date when the share options become exercisable. For the year ended 31st March 2006, the fair value of the share options expensed in the income statement was HK$16,046,000. HKFRS 2 requires retrospective treatment for share options granted after 7th November 2002 and had not yet vested on 1st April 2005 and for the year ended 31st March 2005 the fair value of these share options expensed in the income statement was HK$7,960,000.

– *Convertible bonds issue expenses and change in fair value of convertible bonds*

During the year, the Group issued US$70,000,000 zero coupon convertible bonds due 2010 and incurred one-off expenses of HK$26,480,000 for the issuance of these convertible bonds.

For the year ended 31st March 2006, the Group adopted for the first time new accounting standards, Hong Kong Accounting Standard ("HKAS") 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for convertible bonds. At 31st March 2006, change in fair values of the convertible bonds was determined, and the difference of HK$1,420,000 between the fair value of the convertible bonds and the proceeds of the convertible bonds was recognised as an expense in the income statement. The HK$1,420,000 reflected the difference between the fair value and book value of the convertible bonds and was not a cash expense to the Group.

A total of HK$27,900,000 has been recognised as expenses in the income statement in relation to the convertible bonds.

– *Change in fair value of loan receivable*

On 3rd March 2006, the Group entered into loan agreements with its joint controlled entity CCIT in which the Group granted a non-interest bearing two-year loan of US$6,900,000 (HK$53,820,000) to CCIT for the development of PIATS business. At 31st March 2006, the amount of the loan receivable stated in the consolidated balance sheet was HK$25,664,000 after inter-company balance elimination of the Group's 50% share of CCIT and a change in fair value of HK$1,246,000 for deemed interest. Change in fair value of loan receivable arise from the adoption for the first time new accounting standards, HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement for loan receivable. On the initial adoption of these accounting standards, the difference of HK$1,246,000 between the fair value and the face value of the loan receivable was recognised as an expense in the income statement. However, the difference of HK$1,246,000 was not a cash expense to the Group.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– *Start up expenses of a jointly controlled entity*

During the year, the Group incurred one-off start up expenses of HK$1,207,000 relating to the formation of CCIT, a joint venture between 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 the General Administration of Quality Supervision, Inspection and Quarantine of the PRC) ("AQSIQ"), China Telecom and the Group, the operator of PIATS. The joint venture has a term of 30 years commencing from the issuance date of the business licence on 27th January 2005. However, these start up expenses have not been amortised over the life of the joint venture, but instead recorded as a one-off expense in the year ended 31st March 2006.

– *Other administrative and operating expenses*

Other administrative and operating expenses for the year ended 31st March 2006 was HK$135,358,000, representing an increase of 14.7% over the previous year. The increase was mainly due to higher staff cost as a result of increase in headcount, especially in HL95 to cope with the expanding business.

– *Share of profit of an associate*

The share of profit of an associate represents the equity income contribution from Dongfang Customs. The Group completed the acquisition of a 30% interest in Dongfang Customs on 31st March 2005, therefore, Dongfang Customs commenced contributing to the Group's results for the year ended 31st March 2006.

– *Profit before interest, taxes, depreciation and amortisation*

Profit before interest, taxes, depreciation and amortisation of HK$33,039,000 represented an increase of 91.9% as compared with the previous year. However, included in profit before interest, taxes, depreciation and amortisation was one-off expenses of HK$26,480,000 for the issuance of the convertible bonds and one-off start up expenses of HK$1,207,000 in relation to formation of CCIT (a joint venture between AQSIQ, China Telecom and the Group), and non-cash expenses of HK$18,712,000 resulting from new accounting standards using fair values to account for the convertible bonds, loan receivable and share option expense. The fair values to account for convertible bonds, loan receivable and share options expense resulted from the Group's first time adoption of new accounting standards HKAS 32 Financial Instruments: Disclosure and Presentation, HKAS 39 Financial Instruments: Recognition and Measurement for the convertible bonds and loan receivable, and HKFRS 2 Share-based Payment for the share options. Before the one-off expenses of HK$27,687,000 and non-cash expenses of HK$18,712,000 from the first time adoption of new accounting standards, the profit before interest, taxes, depreciation and amortisation would be HK$79,438,000 or an increase of 215.5% over the previous year's profit before interest, taxes, depreciation, amortisation and the non-cash share option expense of HK$7,960,000 (retrospectively booked in the previous year due to HKFRS 2 Share-based Payment).

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– *Profit before interest, taxes, depreciation and amortisation (Continued)*

The Group recorded a significant improvement in profit before interest, taxes, depreciation, amortisation and before one-off expenses of HK$27,687,000 and non-cash expenses of HK$18,712,000 from the first time adoption of new accounting standards because of the following reasons:

(a) Increase in turnover and gross profit as explained above; and

(b) The Group recorded a share of net profit of HK$9,725,000 from a 30%-owned associate, Dongfang Customs, which has became an associate of the Group since 31st March 2005.

– *Net profit attributable to shareholders*

Net profit attributable to shareholders of HK$9,153,000 as compared to a loss of HK$1,755,000 in the previous year. If the one-off convertible bonds issuance expenses of HK$26,480,000, one-off start up expenses of HK$1,207,000 for the establishment of CCIT, and non-cash expenses of HK$18,712,000 for the first time adoption of new accounting standards to use fair values for convertible bonds, loan receivable from CCIT and share option expense were excluded, the net profit attributable to shareholders would be HK$55,552,000, an increase of 795.3% over the previous year after adjusting for non-cash share option expenses of HK$7,960,000 (retrospectively booked in the previous year due to HKFRS 2 Share-based Payment).

– *Earnings per share*

Basic and diluted earnings per share are 0.28 cents and 0.27 cents. If the one-off expenses of HK$27,687,000 and non-cash expenses of HK$18,712,000 for the year ended 31st March 2006 and the non-cash expenses of HK$7,960,000 for the year ended 31st March 2005 were excluded, the basic and diluted earnings per share would be 1.68 cents and 1.61 cents, representing increases of 784.2% and 747.4% respectively over the previous year.

FINANCIAL REVIEW *(Continued)*

Significant investment and capital expenditure

During the year ended 31st March 2006

(i) Joint venture formation with 河北電視台 (Hebei Television Station China)

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 (the "JV 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, 51% of which or RMB35,700,000 is to be contributed by Hebei TV in the form of intangible and tangible assets, and 49% or RMB34,300,000 by CITIC 21CN DIGITAL in the form of cash.

(ii) US$6,900,000 loan to CCIT for second stage development of PIATS database/system

On 3rd March 2006, the Group entered into loan agreements with CCIT in which the Group granted a non-interest bearing and unsecured two-year loan of US$6,900,000 (HK$53,820,000) to CCIT for the second stage development of PIATS database/system. At 31st March 2006, the amount of the loan receivable stated in the consolidated balance sheet was HK$25,664,000 after inter-company balance elimination of the Group's 50% share of CCIT and fair value adjustment for deemed interest.

Subsequent to year end on 31st March 2006

(iii) Program licenses agreement with Beijing Oracle Software Systems Co., Ltd. ("Oracle")

On 30th May 2006, the Group entered into an ordering document and agreement with 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.

FINANCIAL REVIEW *(Continued)*

Financial resources, liquidity and foreign exchange exposures

The financial positions of the Group as at 31st March 2006 and the corresponding comparative figures as at 31st March 2005 are summarised as follows:

	31st March 2006 HK$'000	31st March 2005 HK$'000
Current assets	**817,722**	306,614
Including		
– Bank balances and cash (mainly denominated in Hong Kong dollars and Renminbi)	**592,978**	136,266
– debtors	**153,135**	128,947
Current liabilities	**118,350**	133,065
– including short-term bank loans	**11,760**	11,583
Current ratio (current asset/current liabilities)	**6.91**	2.30
Quick ratio (Bank balances and cash & debtors/current liabilities)	**6.30**	1.99
Shareholders' equity	**337,765**	308,787
Convertible bonds	**547,420**	–
Gearing ratio (bank loans and convertible bonds/shareholders' equity)	**165.55%**	3.75%

FINANCIAL REVIEW *(Continued)*

Financial resources, liquidity and foreign exchange exposures *(Continued)*

Bank balances and cash increased by 335.16% from HK$136,266,000 as at 31st March 2005 to HK$592,978,000 as at 31st March 2006. The increase in bank balances and cash was mainly due to the issue of US$55,000,000 and US$15,000,000 zero coupon convertible bonds in December 2005 and January 2006, respectively.

All bank loans of the Group as at 31st March 2006 were short-term in nature, denominated in Renminbi and repayable within one year, and carried interest at prevailing market rates.

The current ratio improved from 2.30 as at 31st March 2005 to 6.91 as at 31st March 2006 mainly due to the proceeds from the issue of US$55,000,000 and US$15,000,000 zero coupon convertible bonds in December 2005 and January 2006, respectively.

The quick ratio improved from 1.99 as at 31st March 2005 to 6.30 as at 31st March 2006 mainly due to the proceeds from the issue the convertible bonds.

Shareholders' equity increased from HK$308,787,000 as at 31st March 2005 to HK$337,765,000 as at 31st March 2006 mainly because of the profitable business operations of the Group during the year.

The Group's gearing ratio increased from 3.75% as at 31st March 2005 to 165.55% as at 31st March 2006 mainly due to the issue of convertible bonds.

The Group's operations and transactions are principally located in the People's Republic of China ("PRC") and all assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi with the exception of the convertible bonds which are denominated in US dollars. The Directors believe that there will not be material fluctuation in the exchange rate of Renminbi and US dollars against Hong Kong dollars, the reporting currency, in the foreseeable future and the operations of the Group are not subject to significant exchange rate risk.

Except as disclosed in note 39 to the financial statements, there are no material contingent liabilities as at 31st March 2006.

BUSINESS REVIEW

The Group is an integrated information and content service provider, emphasizing on innovation as well as seeking ways to apply the latest information technology to provide unique information service to the PRC governmental departments, manufacturers and consumers. The Group's major clients are sizable and prestigious PRC manufacturers. Our information service will also expedite the development of small to medium size manufacturers. As a result, the Group has received strong support from the PRC government.

- **CCIT**

  CCIT, a joint venture between AQSIQ, China Telecom and the Group, is principally engaged in the provision of product quality supervision and enforcement information for the relevant PRC authorities through the operation of PIATS; the provision to the manufacturers with manufacturing, distribution through the supply chain, and sales information; the provision of a simple, convenient and rapid way for the consumers to enquire product information, information on counterfeit products or products with poor quality; and the provision of an interactive channel for the consumers to report counterfeit products or products with poor quality. CCIT has established a leading position in the PRC information service sector by providing manufacturers and consumers with these information value-added services.

  In January 2005, the joint-venture, CCIT, was established with the Group holding 50%, AQSIQ holding 30% and China Telecom holding 20% to build the system for, and engage in the business of PIATS. In the first half of 2005, CCIT invested and developed the PIATS database, which allows connection through different electronic means on the existing platform such as telephone, SMS, IVRS and the internet. Consumers can also be connected through the designated terminals installed in the shopping or distribution centres. Around the fourth quarter of 2005, CCIT launched PIATS in Hebei province and received positive response from manufacturers and consumers. In late 2005, CCIT began installing LCD terminals in major supermarket and shopping centers in major cities in Hebei province. These LCD terminals allow consumers to authenticate products in the supermarkets and shopping centers and to use telephone terminals at agricultural products specialty stores . In December 2005 and January 2006, the Company issued in total US$70,000,000 zero coupon bonds to raise funding for the development of PIATS. In March 2006, it was reported on CCTV the success of PIATS in Hebei province and the intention to rollout PIATS nationwide. In the same month, the Company lent CCIT US$6,900,000 for the second stage development of PIATs database/system. In July 2006, the Company established a strategic partnership with Oracle.

BUSINESS REVIEW *(Continued)*

Future prospect

Since the launch of PIATS, CCIT has experienced positive response from manufacturers and consumers. AQSIQ, other government departments and senior government official have provided tremendous support for PIATS since it reduces counterfeit products and protects consumers, manufacturers and intellectual property rights. Together with the support from AQSIQ, CCIT is going to enter into the access service agreements in the near future with more than a hundred large and renowned domestic manufacturers including products of food, agriculture resources, construction materials and necessities, etc. In addition, the Group plans to commence installing enquiry terminals in major supermarkets and shopping centers throughout China in the second half of 2006 while the scope of service will be expanded to the industries of pharmaceutical, tobacco, alcohol and other merchandises. Given that there are no other companies that can provide a similar service as PIATS and the strong government support, the Directors believe there is great potential for PIATS.

- **HL95**

  HL95 is a nationwide telecommunications VAS company in the PRC and is licensed by the relevant PRC government authorities on the provision of SMS and IVRS service in the PRC. HL95 is a telecommunication/information VAS provider (non-telecom operator) which provides IVRS services through both fixed telephone line network and mobile phone network (in collaboration with the telecom operators) which covers the whole country. HL95 offers governmental, commercial and entertainment information. HL95 also provides other telecommunication/information VAS such as internet protocol services and customer care call centers.

  Future prospect

  HL95 intends to enrich its service varieties and plans to work with more content providers, government departments and large corporation to provide more VAS. As an important platform for the Group, HL95 enables the Group to promote the information services of PIATS. For example, the Group used HL95's platform to enable consumers to enquire product information nation-wide by HL95's IVRS and SMS systems. The Directors believe that HL95 has good potential since the information services or content generated from the existing business or new business of the Group can be offered nation-wide using HL95's platform.

- **Dongfang Customs**

  Dongfang Customs, a joint venture with the PRC Customs Department and China Telecom, is engaged in electronic customs processing and other electronic government services. Dongfang Customs provides customs filing and declaration, identity authentication, online payments, electronic customs tax and foreign exchange filings, billing and other customs related services. Dongfang Customs' users principally include manufacturers and import/export corporations. As at 31st March 2006, Dongfang Customs had 260,000 users. Users are principally charged a time-based telecommunication fee for accessing the network platform.

BUSINESS REVIEW *(Continued)*

Future prospect

The PRC government has been encouraging manufacturers and import/export corporations to perform the customs declaration processing electronically as it not only speeds up the customs declaration procedures but also helps minimise handling costs involved in the declaration. Given that as at 31st March 2006, there were only 260,000 users, and China is the manufacturing base for the world, the Directors believe that there is great potential for Dongfang Customs. In addition, the Group anticipates that the number of users will increase in line with the economic growth of the PRC.

- **Grand Cycle**

  Grand Cycle engages in system integration and software development. During the year, Grand Cycle has focused on projects with higher margins and larger contract sums and servicing HL95 and CCIT.

  Future prospect

  Grand Cycle will continue to expand its system integration and software development business and provide the corporations and customers with professional technical solutions.

- **Hebei TV**

  Hebei TV is in the process of formation.

  Future prospect

  The Group plans to participate in the PRC's national project to digitalise all television broadcasting in the PRC in year 2010 and thus entered 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, from which the future development will benefit the Group. The Group plans to expand the scope of such business to other provinces in the future if appropriate.

EMPLOYEES AND REMUNERATION POLICIES

The numbers of full-time employees of the Company and its subsidiaries, HL95, CCIT and Dongfang Customs as at 31st March 2006 are detailed as follows:

		Entities		
Location	**The Company and its subsidiaries**	**HL95 (49%-owned jointly controlled entity)**	**CCIT (50%-owned jointly controlled entity)**	**Dongfang Customs (30%-owned associate)**
– Hong Kong	19	–	–	–
– The PRC	63	1,845	125	323
Total	82	1,845	125	323

Total staff costs of the Group for the year were HK$83,643,000 in which HK$44,366,000 and HK$4,023,000 were the portions attributable to the Group in HL95 and CCIT respectively. All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

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

The Group has also set up share option schemes pursuant to which employees of the Group may be granted options to subscribe for the Company's shares at their absolute discretion. The subscription price, exercise period and the number of options to be granted are determined in accordance with the prescribed terms of the schemes. During the year ended 31st March 2006, a total of 11,000,000 share options were granted to 5 employees and other eligible persons.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group for the year ended 31st March 2006.

PRINCIPAL ACTIVITIES

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 PIATS, system integration and software development.

An analysis of the Group's performance for the year by businesses and geographical segments is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 37 of this annual report.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 39 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

No pre-emptive rights exist under the Company's Bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 90 of this annual report.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Wang Jun *(Chairman)*	
Ms. Chen Xiao Ying *(Executive Vice Chairman)*	
Mr. Luo Ning *(Vice Chairman)*	
Mr. Sun Yalei	
Mr. Zhang Lian Yang	
Mr. Yin Yiping	(resigned on 18th August 2005)
Ms. Xia Guilan	
Dr. Liu Xiaoping	(resigned on 26th September 2005)

Independent non-executive directors

Mr. Hui Ho Ming, Herbert, JP	(appointed on 16th November 2005)
Mr. Zhang Jian Ming	
Mr. Liu Hongru	
Mr. Tsui Yiu Wa, Alec	(resigned on 10th November 2005)

In accordance with Clause 99 of the Bye-laws of the Company, Mr. Luo Ning and Mr. Zhang Jian Ming will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clause 102 of the Bye-laws of the Company, Mr. Hui Ho Ming, Herbert, JP will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS *(Continued)*

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has complied with the requirements of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to have 3 Independent Non-executive Directors. The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 29 to 30 of this annual report.

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.

SHARE OPTION AND WARRANTS

During the year ended 31st March 2005, a rights issue of warrants at an initial subscription price of HK$0.10 per warrant was made in the proportion of one warrant for every six shares held by members on the register of members on 25th February 2005, resulting in 550,697,664 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.01 at an initial 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.

During the year, 52,417 warrants were exercised. At the balance sheet date, the Company had 550,645,247 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 550,645,247 additional shares of HK$0.01 each.

SHARE OPTION AND WARRANTS *(Continued)*

At the annual general meeting of the Company held on 30th August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") under which the Directors may, at their discretion, invite Executive Directors and key employees of the Company or its subsidiaries and other eligible persons as defined in the New Scheme to subscribe for shares in the Company subject to terms and conditions stipulated therein. On the same date, the share option scheme approved by the shareholders on 28th May 1998 (the "Old Scheme") was terminated such that no further options shall be offered but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options granted under the Old Scheme and New Scheme during the year are set out below:

				Number of options					
	Date of grant	Exercise price HK$	Exercise period	At 1st April 2005	Granted during the year	Lapsed during the year	Exercised during the year #	At 31st March 2006	Term of new scheme to mention
Directors									
Mr. Wang Jun	23.3.2005	3.175	23.3.2006 to 23.3.2015	10,000,000	–	–	–	10,000,000	∂
	23.3.2005	3.175	23.3.2007 to 23.3.2015	10,000,000	–	–	–	10,000,000	∂
	23.3.2005	3.175	23.3.2008 to 23.3.2015	10,000,000	–	–	–	10,000,000	∂
Ms. Chen Xiao Ying	13.7.2000	0.9900	13.1.2001 to 27.5.2008	21,000,000	–	–	–	21,000,000	Δ
	13.7.2000	0.9900	13.7.2001 to 27.5.2008	21,000,000	–	–	–	21,000,000	Δ
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	28,000,000	–	–	–	28,000,000	Δ
	24.6.2003	0.3220	10.9.2004 to 23.6.2013	30,000,000	–	–	–	30,000,000	∂
	24.6.2003	0.3220	10.3.2005 to 23.6.2013	30,000,000	–	–	–	30,000,000	∂
	24.6.2003	0.3220	10.9.2005 to 23.6.2013	30,000,000	–	–	–	30,000,000	∂
Mr. Luo Ning	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	–	–	–	3,333,334	∂
Mr. Sun Yalei	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	–	–	–	3,333,334	∂
Mr. Zhang Lian Yang	24.6.2003	0.3220	24.6.2004 to 23.6.2013	5,000,000	–	–	–	5,000,000	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	5,000,000	–	–	–	5,000,000	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	5,000,000	–	–	–	5,000,000	∂
				225,000,000	–	–	–	225,000,000	

SHARE OPTION AND WARRANTS *(Continued)*

	Date of grant	Exercise price HK$	Exercise period	Number of options: At 1st April 2005	Granted during the year	Lapsed during the year	Exercised during the year #	At 31st March 2006	Term of new scheme to mention
Ex-Director									
Dr. Liu Xiaoping	24.6.2003	0.3220	24.6.2005 to 23.6.2013	1,666,668	–	–	1,666,668	–	∂
				1,666,668	–	–	1,666,668	–	
Employees	13.7.2000	0.9900	13.7.2001 to 27.5.2008	60,000	–	–	60,000	–	Δ
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	340,000	–	–	140,000	200,000	Δ
	20.11.2000	0.7920	20.11.2001 to 27.5.2008	2,400,000	–	2,400,000	–	–	Δ
	20.11.2000	0.7920	20.11.2002 to 27.5.2008	2,400,000	–	2,400,000	–	–	Δ
	20.11.2000	0.7920	20.11.2003 to 27.5.2008	3,200,000	–	3,200,000	–	–	Δ
	24.6.2003	0.3220	24.6.2004 to 23.6.2013	2	–	–	2	–	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	2	–	–	2	–	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	2,333,332	–	–	2,333,332	–	∂
	22.9.2004	1.2300	22.9.2005 to 22.10.2005	4,333,334	–	4,333,334	–	–	∂*
	22.9.2004	1.2300	22.9.2006 to 22.10.2006	4,333,334	–	2,533,334	–	1,800,000	∂*
	22.9.2004	1.2300	22.9.2007 to 22.10.2007	4,333,332	–	2,533,332	–	1,800,000	∂*
	1.2.2005	2.255	6.1.2006 to 31.1.2015	1,333,333	–	1,333,333	–	–	∂
	1.2.2005	2.255	6.1.2007 to 31.1.2015	1,333,333	–	1,333,333	–	–	∂
	1.2.2005	2.255	6.1.2008 to 31.1.2015	1,333,334	–	1,333,334	–	–	∂
	1.2.2005	2.255	5.1.2006 to 31.1.2015	1,000,000	–	–	–	1,000,000	∂*
	1.2.2005	2.255	5.1.2007 to 31.1.2015	1,000,000	–	–	–	1,000,000	∂*
	1.2.2005	2.255	5.1.2008 to 31.1.2015	1,000,000	–	–	–	1,000,000	∂*
	2.3.2005	2.525	2.9.2005 to 1.3.2015	2,766,666	–	2,066,666	–	700,000	∂
	2.3.2005	2.525	2.9.2006 to 1.3.2015	2,766,666	–	2,066,666	–	700,000	∂
	2.3.2005	2.525	2.3.2008 to 1.3.2015	2,766,668	–	2,066,668	–	700,000	∂
	2.3.2005	2.525	2.3.2006 to 1.3.2015	200,000	–	200,000	–	–	∂
	2.3.2005	2.525	2.3.2007 to 1.3.2015	200,000	–	200,000	–	–	∂
	2.3.2005	2.525	2.3.2008 to 1.3.2015	200,000	–	200,000	–	–	∂
	2.3.2005	2.525	2.3.2009 to 1.3.2015	200,000	–	200,000	–	–	∂
	2.3.2005	2.525	2.3.2010 to 1.3.2015	200,000	–	200,000	–	–	∂
	10.3.2005	2.925	10.3.2006 to 9.3.2015	1,000,000	–	1,000,000	–	–	∂
	10.3.2005	2.925	10.3.2007 to 9.3.2015	1,000,000	–	1,000,000	–	–	∂
	23.3.2005	3.175	23.3.2006 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2007 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2008 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2009 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2010 to 22.3.2015	200,000	–	–	–	200,000	∂
	1.6.2005	2.175	1.6.2006 to 30.6.2006	–	2,333,333	–	–	2,333,333	∂
	1.6.2005	2.175	1.6.2007 to 30.6.2007	–	2,333,333	–	–	2,333,333	∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	–	2,333,334	–	–	2,333,334	∂
	1.6.2005	2.175	1.6.2006 to 30.6.2006	–	800,000	200,000	–	600,000	∂
	1.6.2005	2.175	1.6.2007 to 30.6.2007	–	800,000	200,000	–	600,000	∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	–	800,000	200,000	–	600,000	∂
	1.6.2005	2.175	1.6.2009 to 30.6.2009	–	800,000	200,000	–	600,000	∂
	1.6.2005	2.175	1.6.2010 to 30.6.2010	–	800,000	200,000	–	600,000	∂
				43,033,336	11,000,000	31,600,000	2,533,336	19,900,000	
				269,700,004	11,000,000	31,600,000	4,200,004	244,900,000	

SHARE OPTION AND WARRANTS *(Continued)*

Δ Options under Old Scheme

∂ Options under New Scheme

* The exercise of options and the number of share of the Company ("Share") to be issued upon exercise of such options are subject to achievement of certain targeted turnover of HL95, a jointly controlled entity of the Group.

The weighted average closing prices of the Shares immediately before the dates of which the options were exercised by an ex-Director and employees were HK$2.125 and HK$2.263 respectively.

The share options granted are recognised in the financial statements in accordance with the accounting policy of the Group as set out in note 4 to the financial statements.

Except for the share option scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company nor their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries or its holding companies were a party and in which a Director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at 31st March 2006, the Directors and their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 352 of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules:

	Number of shares/underlying shares held			
	Shares (Corporate interest)	**Shares (Personal interest)[(2)]**	**Equity derivative[(3)]**	**Aggregate interests**
Mr. Wang Jun	–	30,000,000	–	30,000,000
Ms. Chen Xiao Ying	784,937,030[(1)]	160,000,000	130,822,838[(1)]	1,075,759,868
Mr. Luo Ning	–	10,000,000	–	10,000,000
Mr. Sun Yalei	–	10,000,000	–	10,000,000
Mr. Zhang Lian Yang	–	15,000,000	–	15,000,000
	784,937,030	225,000,000	130,822,838	1,140,759,868

Notes:

(1) Pollon Internet Corporation, a company wholly-owned by Ms. Chen Xiao Ying, owns 99.5% interest in 21CN Corporation. Uni-Tech International Group Limited, a wholly owned subsidiary of 21CN Corporation, holds 784,937,030 shares in the Company. Accordingly, Ms. Chen Xiao Ying is interested in the shares held by Uni-Tech International Group Limited.

(2) Particulars of interests of the Directors in the share options of the Company are set out in the section headed "Share Option and Warrants" above.

(3) All interests in shares and underlying shares of equity derivatives of the Company are long positions. All interests in underlying shares of equity derivatives of the Company are interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price of HK$2.40 per share (subject to adjustment) exercisable during the period from 18th March 2005 to 17th September 2006.

Save as disclosed above, none of Directors nor any chief executive of the Company has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained under section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at 31st March 2006, the following parties (other than a Director or chief executive of the Company) had interests or short positions in the shares of underlying shares of the Company would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

Name	Nature of interest	Number of shares held	Equity derivative	Total interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited (note (a))	Beneficial owner	784,937,030	130,822,838	915,759,868	27.68
21CN Corporation (note (a))	Interest of controlled corporation	784,937,030	130,822,838	915,759,868	27.68
Pollon Internet Corporation (note (a))	Interest of controlled corporation	784,937,030	130,822,838	915,759,868	27.68
CITIC Group (note (b))	Interest of controlled corporation	807,998,000	134,666,333	942,664,333	28.49

Notes:

(a) Uni-Tech International Group Limited is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 99.5% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying, Executive Vice Chairman of the Company.

(b) Road Shine Developments Limited, Goldreward.com Ltd and Perfect Deed Co. Ltd. holds 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC Group. All the equity derivatives are held by CITIC Group.

(c) All interests in shares and underlying shares of equity derivatives of the Company are long positions. All interests in underlying shares of equity derivatives of the Company are interests in warrants.

Save as disclosed above, there are no other interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of SFO.

CONNECTED TRANSACTIONS

Grand Cycle (an indirectly wholly-owned subsidiary of the Company) and HL95 (51% and 49% equity interests of which being beneficially owned by 中信國安信息產業股份有限公司(CITIC Guoan), a company incorporated in the PRC of which CITIC Group is a substantial shareholder with 40.18% effective equity interests in it, and the Company respectively) entered into a service agreement (the "Service Agreement") on 8 August 2005 for the provision of software development and system integration service by Grand Cycle to HL95. Grand Cycle will also provide (i) technical guidance and training service to HL95 regarding the application of the system installed for 12 months commencing from the date of the Service Agreement and (ii) a 12-month free repair and maintenance service to it upon the commencement of the operation of the installed system pursuant to the Service Agreement. The system installed will be used for the provision of finance-related information to the customers of HL95.

Grand Cycle agrees to provide HL95 with software development and system integration service at a fixed fee of RMB9,130,000 (equivalent to approximately HK$8,779,000) being payable by HL95 to Grand Cycle in the following manner:

– 10% of the service fee or RMB913,000 (equivalent to approximately HK$878,000) being payable within five days after the signing of the Service Agreement;

– 30% of the service fee or RMB2,739,000 (equivalent to approximately HK$2,634,000) being payable upon receipt of software by HL95 and software development personnel of Grand Cycle commencing on-site system installation at HL95;

– 50% of the service fee or RMB4,565,000 (equivalent to approximately HK$4,389,000) being payable within five days after satisfactory testing of the installed system; and

– the balance of 10% or RMB913,000 (equivalent to approximately HK$878,000) being payable one month after the Free Repair and Maintenance Service Period.

In addition to the above, during the year, the Group entered into certain connected transactions, as defined in Chapter 14 of the Listing Rules of the Stock Exchange, which are also related party transactions, references to which are set out in note 38 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases during the year attributable to the Group's five largest suppliers was 22% of the total purchases of the Group, of which 8% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 16% of the total turnover of the Group, of which 5% was made to the largest customer.

None of the Directors, their associates or any shareholders who to the knowledge of the Directors owns more than 5% of the share capital of the Company has an interest in the suppliers or customers disclosed above.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company have any beneficial interest in other businesses which constitute a competing business to the Group.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

LITIGATION AND SUBSEQUENT EVENT

Details of litigation and subsequent event are set out in notes 39 and 41 to the financial statements respectively.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float of not less than 25% throughout the year.

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 31 to 35 of this annual report of the Company for details of its compliance with the Code on Corporate Governance Practices.

AUDIT COMMITTEE

The Group's annual report for the year ended 31st March 2006 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 31 to 35 of this annual report.

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company in the past three years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chen Xiao Ying
EXECUTIVE VICE CHAIRMAN
Hong Kong, 17th July 2006

THE BIOGRAPHICAL INFORMATION OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. WANG Jun, aged 65, was appointed as the chairman of the Company in March 2005. Mr. Wang is responsible for determining overall high level corporate strategies for the Group. Mr. Wang graduated from Harbin Engineering Institute in the PRC, is currently the chairman of CITIC in Beijing and Poly (Hong Kong) Investment Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Ms. CHEN Xiao Ying, aged 43, is the Executive Vice Chairman of the Company. Ms. Chen is responsible for setting overall corporate strategies and their implementation for the Group. She has been Chairman of the Pollon Group, a private investment group, since its inception in 1989. Ms. Chen is responsible for developing and managing the Pollon Group's business for the past 15 years, including investments in power plant, telecommunication and property development in the PRC. Ms. Chen has been a Member of the Chinese National People's Political Consultative Committee since 1998 and a Permanent Honorary President of Friends of Hong Kong Association Limited since 1999. Ms. Chen has served as Director since May 2000.

Mr. LUO Ning, aged 47, is the Vice Chairman of the Company. He is the Assistant President of CITIC. He is also a Director of CITIC Information Leadership Group under CITIC. Mr. Luo has over 15 years' experience in the telecommunication business. Mr. Luo graduated from the PLA Communication & Command Institute. Mr. Luo has served as Director since September 2002.

Mr. SUN Yalei, aged 38, is the president of CITIC Guoan Group. Mr. Sun has extensive experience in financial and assets management. Mr. Sun graduated from the Renmin University of China. Mr. Sun has served as Director since September 2002.

Mr. ZHANG Lian Yang, aged 61, has extensive experience in the property investment and development business, trading and information technology-related business in the PRC for over 20 years. Mr. Zhang has served as Director since September 2002.

Ms. XIA Guilan, aged 43, is currently the vice general manager of CITIC Guoan Group. Ms. Xia was previously the vice chairman of CITIC Guoan Information Industries Company Limited. Ms. Xia has served as Director since August 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HUI Ho Ming, Herbert, JP, aged 48, is a Member of Commission on Economic Development and Economic Cooperation with the Mainland Commission on Strategic Development and holds a number of public positions. He has extensive commercial experience both in corporate finance and securities regulation. Mr. Hui serves on the Boards of a number of public and private companies, including companies listed in Hong Kong: Hsin Chong Construction Croup Limited, Ocean Grand Holdings Limited, Ocean Grand Chemicals Holdings Limited, Dynasty Fine Wines Group Limited, Bank of Communications Company Limited and Interchina Holdings Limited; and a company listed in Singapore: Roly International Limited. He was appointed a Justice of the Peace in Hong Kong in 2004. Mr. Hui has served as independent non-executive Director since November 2005.

Mr. ZHANG Jian Ming, aged 45, is currently the executive partner, managing director and attorney-at-law of a law firm in Beijing. Mr. Zhang has served as independent non-executive Director since August 2003.

Mr. LIU Hongru, aged 75, was appointed as independent non-executive Director in September 2004. Mr. Liu graduated from the University of Moscow in 1959 with an associate doctorate's degree. Mr. Liu is currently the chairman of The Chinese Financial Education Development Foundation and Capital Market Research Institute, an independent non-executive director of Petrochina Company Limited, Titan Petrochemicals Group Limited and Oriental Metals (Holdings) Company Limited, and a non-executive director of Concepta Investments Limited. He is also a professor at the Postgraduate School of the People's Bank of China, Peking University, Tsinghua University and the City University of Hong Kong. He was formerly a vice governor of the Agricultural Bank of China and the People's Bank of China, a deputy director of the State Economic Restructuring Committee, and the first chairman of the China Securities Regulatory Commission.

COMPANY SECRETARY

Mr. YEE Foo Hei, aged 42, is an associate member of The Hong Kong Institute of Company Secretaries and a fellow member of The Association of Chartered Certified Accountants in the U.K. He holds a Bachelor Degree in Law. Mr. Yee has around 18 years' experience in company secretarial both in an international accountancy firm and in commercial sector. Mr. Yee was appointed as Company Secretary in January 2006.

CORPORATE GOVERNANCE

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders. The Stock Exchange introduced the Code on Corporate Governance Practices ("the Code") in November 2004, for replacement and enhancement of the Code of Best Practice in Appendix 14 of the Listing Rules. The Code has become effective from 1 January 2005 and the Group has complied with the code provisions set out in the Code, except for the following deviations:–

(a) The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to Clause 87(1) of the Company's Bye-Laws. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable;

(b) All the Independent Non-Executive Directors were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-Laws, As such, the Company considers that such provision is sufficient to meet the underlying objectives of the relevant provisions of the Code;

(c) Only part of the board members attended in the annual general meeting of the Company held on 19th August 2005. The directors present thereat conducted the meeting in a good and proper manner.

THE BOARD

Composition

The Board consists of six executive directors and three independent non-executive directors ("INED(s)"). The names and biographical details of each director are disclosed on pages 29 to 30 of this Annual Report.

Each INED has, pursuant to the guidelines set out in rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. Each INED is subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the bye-laws of the Company. There is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board.

Function

The Board is responsible for managing and direction setting of the Group. For any major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of directors, remuneration policy and other major operational and financial matters, Board approval is required.

The executive directors are responsible for day-to-day management of the Group's operations. These executive directors conduct regular meetings, at which operational issues and financial performance of the Group are evaluated.

THE BOARD *(Continued)*

Function *(Continued)*

The Company views well-developed and timely reporting systems and internal controls are essential, and the Board plays a key role in the implementation and monitoring of internal financial controls.

The Board held four regular Board meetings at approximately quarterly interval during the year ended 31st March 2006 and additional board meetings would be held when necessary. An agenda and accompanying board papers are sent in full to all directors in a timely manner. Adequate information related to the issues are also supplied for the board and its committee to make decisions which is for the best interests of the Group. The directors who cannot attend in person might through other electronic means of communications to participate. Details of individual attendance of directors are set out in the table below:

Attendance of individual directors at Board meetings during the year ended 31st March 2006
Number of meetings: 5

	Attendants/Number of Meetings
Directors	*Board*
Executive Directors	
Mr. Wang Jun *(Chairman)*	4/5
Ms. Chen Xiao Ying *(Executive Vice-chairman)*	5/5
Mr. Luo Ning *(Vice-chairman)*	4/5
Mr. Sun Yalei	4/5
Mr. Zhang Lian Yang	4/5
Mr. Xia Guilan	4/5
Mr. Yin Yiping†	1/2
Dr. Liu Xiaoping∆	2/3
Non-executive Directors	
Mr. Hui Ho Ming, Herbert, JP*	2/2
Mr. Liu Hongru	4/5
Mr. Zhang Jian Ming	4/5
Mr. Tsui Yiu Wa, Alec**	3/3

† Mr. Yin Yiping resigned as Executive Director of the Company on 18th August 2005.

∆ Dr. Liu Xiaoping resigned as Executive Director of the Company on 26th September 2005.

* Mr. Hui Ho Ming, Herbert, JP has been appointed as Independent Non-Executive Director of the Company since 16th November 2005.

** Mr. Tsui Yiu Wa, Alec resigned as Independent Non-Executive Director of the Company on 10th November 2005.

THE BOARD *(Continued)*

Board Committees

In order to strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

Remuneration Committee

The Board has established a Remuneration Committee which comprises three independent Non-Executive Directors, Mr. Liu Hongru, Mr. Zhang Jian Ming and Mr. Hui Ho Ming, Herbert, JP. It is chaired by Mr. Liu Hongru. The terms of reference of the Remuneration Committee have been reviewed with reference to the Code.

The Remuneration Committee's responsibilities are to review and consider Company's policy for remuneration of directors and senior management, to determine remuneration packages of executive directors including benefits in kind, pension rights and compensation payments, to recommend to the Board remuneration of non-executive directors and to assess the performance of executive directors.

The Remuneration Committee held one meeting for the year ended 31st March 2006. Details of individual attendance of its members are set out in the table below:

Number of meetings	**1**
Mr. Liu Hongru	1/1
Mr. Hui Ho Ming, Herbert, JP	1/1
Mr. Zhang Jian Ming	1/1

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors with Mr. Hui Ho Ming, Herbert, JP as Chairman of the Committee. The main duties of the Audit Committee include:

(a) To consider the appointment of the external auditor and any questions in relation to its resignation or dismissal;

(b) To discuss with the external auditor the nature and scope of the audit;

(c) To review the half-year and annual financial statements before submission to the Board;

(d) To discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss;

(e) To review the external auditors' management letter and management's response;

THE BOARD *(Continued)*

Audit Committee *(Continued)*

(f) To review the Company's statement on internal control systems prior to endorsement by the Board;

(g) To review the internal audit function, and ensure coordination with external auditors, and ensure the internal audit function has adequate resources and appropriate standing within the company; and

(h) To consider the major findings of internal investigations and management's response.

The Audit Committee held 4 meetings for the financial year ended 31st March 2006.

Details of individual attendance of its members are set out in the table below:

Number of meetings	**4**
INEDs	
Mr. Hui Ho Ming, Herbert, JP	3/3
Mr. Liu Hongru	4/4
Mr. Zhang Jian Ming	4/4
Mr. Tsui Yiu Wa, Alec	1/1

Other Information

The Board has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year ended 31st March 2006.

AUDITORS' REMUNERATION

During the year under review, PricewaterhouseCoopers ("PwC") resigned as auditors of the Company as the Company and PwC could not reach an agreement on the audit fees for the financial year ended 31st March 2006. The Company subsequently appointed Deloitte Touche Tohmatsu ("Deloitte") as its auditors with effect from 31st March 2006.

The remuneration paid to the Deloitte for audit and non-audit services for the year ended 31st March 2006 amounted to HK$1,700,000 and HK$60,000 respectively.

INTERNAL CONTROL

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the applicable laws and regulations.

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the audit committee of the Board, the Board reviews the effectiveness of these systems.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in all circulars accompanying notice convening general meetings and has been read out by the chairman at general meetings.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the financial statements of the Group (the "Financial Statements"). The statement of the Company's auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on page 36.

AUDITORS' REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF CITIC 21CN COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CITIC 21CN Company Limited (the "Company") and its subsidiaries (the "Group") on pages 37 to 89 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of The Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
17th July 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2006

	NOTES	**2006** **HK$'000**	2005 HK$'000 (Restated)
Turnover	7	**403,545**	249,058
Cost of sales and services		**(219,482)**	(146,999)
Gross profit		**184,063**	102,059
Other income	9	**7,492**	31,507
Change in fair value of convertible bonds		**(1,420)**	–
Convertible bonds issue expenses		**(26,480)**	–
Distribution costs		**(13)**	(88)
Administrative expenses		**(153,857)**	(125,942)
Share of result of an associate		**9,725**	–
Finance costs	10	**(123)**	(1,221)
Profit before taxation	11	**19,387**	6,315
Taxation	12	**(13,100)**	(5,231)
Profit for the year		**6,287**	1,084
Attributable to:			
Equity holders of the Company		**9,153**	(1,755)
Minority interests		**(2,866)**	2,839
		6,287	1,084
		HK cents	HK cents
Earnings (loss) per share	15		
Basic		**0.28**	(0.05)
Diluted		**0.27**	N/A

CONSOLIDATED BALANCE SHEET

At 31st March 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	16	**69,698**	57,187
Interest in an associate	17	**86,387**	76,560
Loan receivable	18	**25,664**	–
Available-for-sale investments	19	**7,737**	–
Other investments	20	**–**	7,728
Other non-current assets	21	**–**	1,057
		189,486	142,532
Current assets			
Inventories	22	**1,532**	703
Amounts due from customers for contract work	23	**30,468**	3,251
Debtors and prepayments	24	**192,744**	166,143
Taxation recoverable		**–**	251
Bank balances and cash	25	**592,978**	136,266
		817,722	306,614
Current liabilities			
Creditors and accruals	26	**97,633**	118,305
Taxation payable		**8,957**	3,177
Short-term bank loans	27	**11,760**	11,583
		118,350	133,065
Net current assets		**699,372**	173,549
Total assets less current liabilities		**888,858**	316,081
Non-current liabilities			
Convertible bonds	28	**547,420**	–
		341,438	316,081
Capital and reserves			
Share capital	29	**33,086**	33,044
Reserves	30	**304,679**	275,743
Equity attributable to equity holders of the Company		**337,765**	308,787
Minority interests		**3,673**	7,294
Total equity		**341,438**	316,081

The financial statements on pages 37 to 89 were approved and authorised for issue by the Board of Directors on 17th July 2006 and are signed on its behalf by:

Chan Xiao Ying
DIRECTOR

Zhang Lian Yang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2006

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 30)	Contributed surplus HK$'000 (Note 30)	Translation reserve HK$'000	Share options reserve HK$'000	General reserve HK$'000 (Note 30)	Accumulated losses HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April 2004	32,823	354,745	–	78,108	2,265	–	5,658	(250,662)	222,937	6,372	229,309
Effects of changes in accounting policies (see note 3)	–	–	–	–	–	3,971	–	(3,971)	–	–	–
At 1st April 2004, as restated	32,823	354,745	–	78,108	2,265	3,971	5,658	(254,633)	222,937	6,372	229,309
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	161	–	–	–	161	–	161
Profit for the year	–	–	–	–	–	–	–	(1,755)	(1,755)	2,839	1,084
Total recognised income and expenses for the year	–	–	–	–	161	–	–	(1,755)	(1,594)	2,839	1,245
Recognition of equity-settled share based payments	–	–	–	–	–	7,960	–	–	7,960	–	7,960
Capital contribution arising from acquisition of interest in an associate from a shareholder (note 3)	–	–	19,215	–	–	–	–	–	19,215	–	19,215
Realised upon disposal of a subsidiary	–	–	–	–	(1,332)	–	(65)	–	(1,397)	–	(1,397)
Acquisition of interest in a jointly controlled entity	–	–	–	–	–	–	–	–	–	559	559
Acquisition of subsidiaries by a jointly controlled entity	–	–	–	–	–	–	–	–	–	(2,476)	(2,476)
Transfer	–	–	–	–	–	–	3,543	(3,543)	–	–	–
Issue of warrants	–	55,070	–	–	–	–	–	–	55,070	–	55,070
Warrants expenses	–	(2,620)	–	–	–	–	–	–	(2,620)	–	(2,620)
Exercise of share options	221	8,995	–	–	–	–	–	–	9,216	–	9,216
	221	61,445	19,215	–	(1,332)	7,960	3,478	(3,543)	87,444	(1,917)	85,527
At 31st March 2005	33,044	416,190	19,215	78,108	1,094	11,931	9,136	(259,931)	308,787	7,294	316,081
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	2,527	–	–	–	2,527	(755)	1,772
Profit for the year	–	–	–	–	–	–	–	9,153	9,153	(2,866)	6,287
Total recognised income and expenses for the year	–	–	–	–	2,527	–	–	9,153	11,680	(3,621)	8,059
Recognition of equity-settled share based payments	–	–	–	–	–	16,046	–	–	16,046	–	16,046
Lapse of share options	–	–	–	–	–	(3,901)	–	3,901	–	–	–
Transfer	–	–	–	–	–	–	2,715	(2,715)	–	–	–
Issue of shares on exercise of warrants	–	125	–	–	–	–	–	–	125	–	125
Exercise of share options	42	1,085	–	–	–	–	–	–	1,127	–	1,127
Transfer of share option reserve on exercise of share options	–	155	–	–	–	(155)	–	–	–	–	–
	42	1,365	–	–	–	11,990	2,715	1,186	17,298	–	17,298
At 31st March 2006	**33,086**	**417,555**	**19,215**	**78,108**	**3,621**	**23,921**	**11,851**	**(249,592)**	**337,765**	**3,673**	**341,438**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2006

	NOTES	2006 HK$'000	2005 HK$'000 (Restated)
Operating activities			
Profit before taxation		**19,387**	6,315
Adjustments for:			
Interest income		**(7,425)**	(441)
Change in fair value of convertible bonds		**1,420**	–
Finance costs		**123**	1,221
Discount on fair value of loan receivables		**1,246**	–
Share of result of an associate		**(9,725)**	–
Depreciation		**10,663**	12,519
Loss on disposal of property, plant and equipment		**832**	6
Discount on acquisition released to income		**–**	(1,188)
Gain on disposal of subsidiaries		**–**	(13,103)
Write back of long outstanding payables		**–**	(6,775)
Share option expense		**16,046**	7,960
Convertible bonds issue expenses		**26,480**	–
Operating cash flows before movements in working capital		**59,047**	6,514
Increase in inventories		**(829)**	(288)
(Increase) decrease in amounts due from customers for contract work		**(27,217)**	2,762
Increase in debtors and prepayments		**(26,601)**	(52,964)
(Decrease) increase in creditors and accruals		**(14,881)**	17,041
Cash used in operations		**(10,481)**	(26,935)
Interest received		**7,425**	441
Taxation paid		**(7,069)**	(6,259)
Net cash used in operating activities		**(10,125)**	(32,753)
Investing activities			
Loan advanced		**(26,910)**	–
Purchase of property, plant and equipment		**(26,225)**	(22,328)
Proceeds from disposal of property, plant and equipment		**2,841**	45
Decrease (increase) in restricted bank deposits		**1,057**	(1,057)
Acquisition of interest in a jointly controlled entity	32	**–**	1,439
Acquisition of subsidiaries by a jointly controlled entity (net of cash and cash equivalents acquired)		**–**	(1,779)
Purchase of other investments		**–**	(530)
Proceeds from disposal of subsidiaries	34	**–**	411
Acquisition of interest in an associate		**–**	(57,345)
Net cash used in investing activities		**(49,237)**	(81,144)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31st March 2006

	2006	2005
	HK$'000	HK$'000
Financing activities		
Proceeds from issue of convertible bonds	546,000	–
Dividends paid by a jointly controlled entity to its former shareholders	(5,791)	–
Convertible bonds issue expenses	(26,480)	–
New bank loans raised	22,814	–
Net proceeds from issue of shares and warrants	1,252	61,666
Repayment of short-term loans	(22,772)	(36,029)
Interest paid	(123)	(1,221)
Net cash from financing activities	514,900	24,416
Increase (decrease) in cash and cash equivalents	455,538	(89,481)
Cash and cash equivalents at beginning of the year	136,266	225,586
Effect of foreign exchange rate changes	1,174	161
Cash and cash equivalents at end of the year	592,978	136,266

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 **HK$'000**	2005 HK$'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	2005
	HK$'000	HK$'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 HK$'000	2005 HK$'000 (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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'000 (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 HK$'000	Ms. Chen Xiao Ying HK$'000	Mr. Luo Ning HK$'000	Mr. Sun Yalei HK$'000	Mr. Zhang Lian Yang HK$'000	Mr. Yin Yiping HK$'000	Ms. Xia Guilan HK$'000	Dr. Liu Xiaoping HK$'000	Mr. Vong Tat Leong, David HK$'000	Mr. Zhang Yue HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	Mr. Tsui Yiu Wa, Alec HK$000	2005 Total HK$'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 HK$'000	2005 HK$'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	2005
	HK$'000	HK$'000
		(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	2005
	HK$'000	HK$'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 HK$'000	2005 HK$'000
Restricted bank deposits (note 25)	–	1,057

22. INVENTORIES

	2006 HK$'000	2005 HK$'000
General merchandise goods	**1,532**	703

23. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2006 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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	2005
	HK$'000	HK$'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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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.

FINANCIAL SUMMARY

	Year ended 31st March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Restated)	(Restated)	(Restated)		
RESULTS					
Turnover	**403,545**	249,058	163,947	10,600	10,464
Profit (loss) before taxation	**19,387**	6,315	(5,349)	(26,974)	(77,400)
Taxation	**(13,100)**	(5,231)	(1,371)	(82)	–
Profit (loss) for the year	**6,287**	1,084	(6,720)	(27,056)	(77,400)
Attributable to:					
Equity holders of the Company	**9,153**	(1,755)	(6,006)	(27,054)	(77,400)
Minority interests	**(2,866)**	2,839	(714)	(2)	–
	6,287	1,084	(6,720)	(27,056)	(77,400)

	As at 31st March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,007,208**	449,146	392,932	175,759	171,772
Total liabilities	**(665,770)**	(133,065)	(168,477)	(73,640)	(54,329)
	341,438	316,081	224,455	102,119	117,443
Equity attributable to equity holders of the Company	**337,765**	308,787	218,083	102,034	117,443
Minority interests	**3,673**	7,294	6,372	85	–
	341,438	316,081	224,455	102,119	117,443