CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 241

Annual Report 08

Content

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

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

COMPANY SECRETARY

Mr. YEE Foo Hei, ACS, ACIS, FCCA

QUALIFIED ACCOUNTANTS

Mr. HUI Man Chun, FCCA, FCPA
Mr. YUEN Wai Ho, FCCA, FCPA

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

Units 614-616, Level 6
Core D, Cyberport 3
100 Cyberport Road
Hong Kong

STOCK CODE

241

LEGAL ADVISORS

Hong Kong

Tung & Co.

Bermuda

Appleby Spurling Hunter

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Management (Bermuda) Ltd.
Argyle House, 41A Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tricor 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

CITIC 21CN Company Limited adheres to CITIC Group's existing development mission of being committed to both shareholders' investment returns and corporate social responsibility. Long-term investment is an area essential to the quality of life of 1.3 billion people in China. Earlier investments in the electronic customs business (Dongfang Customs) and Honglian 95's telecom VAS business have established business groups with sustainable development. The "Product Identification, Authentication, Tracking System" ("PIATS"), which we have invested significantly in the past four years, is now the core platform contributing to the Group's rapid growth in the future. We have clearly identified that with the nationwide marketing of PIATS in China, it has been contributing significantly to China's economy and society. Our Company will also achieve good revenue.

1. WE ARE ACCOMPLISHING OUR ANTICIPATED GOAL ACCORDING TO OUR PLAN:

As stipulated in the document jointly promulgated by the General Administration of Quality Supervision, Inspection and Quarantine, Ministry of Commerce and State Administration for Industry and Commerce, by June 2008, 69 products in 9 categories (including food products, home appliances, gas appliances, agricultural products, man-made boards, electric wire and cable, cosmetics, electric blanket, safety hazard protective wear), which are essential to the livelihood of the public, must include the PIATS barcode on the product package before launching to the market. 100,000 production enterprises and 500,000 circulation enterprises are subject to this new requirement. This "authentically traceable" single-piece product real-time tracking system represents 60% of the mainstream product market. All suitable products will be included in PIATS by the end of 2010. PIATS applications in drugs are in good progress, with all special drugs being included in PIATS. Ordinary drugs will also be added to PIATS in October this year. The Year 2008 will be a development milestone for PIATS.

2. MAINTAINING GOOD PIATS SUPPORT AND SERVICE:

We have made investment in establishing a leading public information service platform with PIATS being the core. The platform includes advanced, sophisticated and safe network and server groups, super large database and flexible application levels. The business intelligence systems being invested will be able to provide automatic product information service of different levels to numerous enterprises.

3. ACHIEVING SYNERGY OF THE GROUP'S RESOURCES:

We adjusted the development of other businesses appropriately this year, whereas we enhanced our efforts in the PIATS business. Our improvement and integration of the Group's resources generated greater synergy, which helped to promote the development of PIATS thoroughly.

1. PIATS established by the team at China Credit Information Technology Co., Ltd. a company under the Group, has been identified as the shared platform of China's product information in the future. This platform will be an inter-departmental, inter-regional standardised information shared platform. It has met the indispensable requirements for single-piece product total tracking.

2. Dongfang Customs, a company under the Group, will continue to generate sustainable growth in revenue for the Group. It will also become the channel for the supervision of PIATS on imported and exported products.

3. The nationwide service network of Honglian 95, a company under the Group, will provide a convenient and user-friendly service platform to consumers and enterprises. The PIATS business will make a more significant contribution to its income.

4. The extensive experience in system integration of Guangdong Grand Cycle Technology Company Limited is currently contributing to the development of PIATS.

4. ESTABLISHING CUSTOMER-ORIENTED SERVICE SYSTEM:

The Company's long-term investment in PIATS and its related value-added services resulted in the ability to obtain sustainable high investment returns. People have changed the time, venue and their way to complete their work in the informatized society. We care about the various challenges faced by enterprises and government authorities. We can help them enhance efficiency in operational decision-making by obtaining information on channels and markets; reduce corporate losses in respect of income and brand reputation by obtaining information on forgeries; enhance customer loyalty by understanding customers' consumption behaviour and through promotion efforts. Our customers expect to view the integration between technology and business processes with an innovative concept. We have prepared various services for them. A call centre featuring 4,000 seats will also create new experience and value for the enterprises and consumers that we serve.

5. INNOVATIVE MODELS:

We believe that our innovative models and procedures are vital to the Group in the intense market competition. We have been capable of foreseeing future market needs from an innovative perspective, making long-term investments in the needs and achieving sustainable returns. For instance, the RFID solutions under implementation will provide a more effective way to keep track of high value-added products. Since the new public logistics information platform of PIATS will create an annual economic value of RMB200 billion, we will be sharing such economic benefits with the whole society.

The public product information platform established by CITIC 21CN will create a new business environment involving the government, enterprises, organizations and individuals. Our key future strategies are: 1) enhancing our core ability by continuously improving our basic services, including enrollment of companies, code assignment, code standards, collection and exchange of code information as well as handling relevant consumer enquiries. These make our public product information platform the foundation of the other value-added services; and 2) strengthening our innovation and development of solutions and intellectual properties in the industry, which is the key to the sustainable and rapid expansion of the Company in the future. Our vision in this informatized world in which information is increasingly accessible is that through developing and utilizing product information resources actively, we promote informatization to help enterprises, consumers and the government collectively establish a trustworthy and highly efficient business operations.

The next three years will be a rapid growth stage of PIATS. This public product information platform invested and established by us will begin to generate substantial social and economic benefits. The whole Group will adhere to the business development strategy and endeavor to meet its designated business target while continuously seeking long-term investment. It will further enhance the management and business standards of the management team with an aim to maximizing returns for our shareholders.

The entire staff of the Company and I look forward to creating a better future hand-in-hand with our existing and potential shareholders, business partners, investors, government authorities and the public.

Wang Jun
Chairman

FINANCIAL REVIEW

The key financial figures of the Group for the year ended 31st March 2008 and the comparative figures for the year ended 31st March 2007 are summarized as follows:

	2008 **HK$'000**	2007 HK$'000	Change %
Turnover	**233,374**	286,057	(18.4)
Gross profit	**49,609**	64,930	(23.6)
Gross profit percentage	**21.3%**	22.7%	N/A
Other income	**20,823**	27,098	(23.2)
Administrative expenses (excluding staff costs)	**73,269**	74,256	(1.3)
Staff costs (excluding share option expense)	**66,657**	64,902	2.7
Share option expense	**3,751**	1,272	194.9
Change in fair value of convertible bonds	**11,395**	19,807	(42.5)
Change in fair value of loan receivable	**1,921**	–	N/A
Share of profit of an associate	**11,520**	6,718	71.5
Loss before interest, taxes, depreciation and amortization, and after minority interests	**54,807**	45,684	20.0
Net loss attributable to shareholders	**75,860**	60,998	24.4
Loss per share			
Basic	**2.10 cents**	1.84 cents	14.1

FINANCIAL REVIEW *(Continued)*

Results

– *Turnover*

Turnover of the Group for the year decreased by 18.4% from HK$286,057,000 to HK$233,374,000. The decrease was mainly due to the following reasons:

(a) 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) ("HL95"), a 49%-owned jointly controlled entity of the Group, is engaged in telecommunications/information value-added services ("VAS"). The Group's share of the turnover of HL95 for the year ended 31st March 2008 decreased by 18.1% to HK$224,821,000 from HK$274,657,000 for the year ended 31st March 2007. The Group's share of the turnover of HL95 comprised HK$68,642,000 (2007: HK$113,153,000) from short messaging services ("SMS"), HK$62,947,000 (2007: HK$94,091,000) from fixed-line interactive voice response system ("IVRS"), HK$29,658,000 (2007: HK$17,567,000) from mobile IVRS, HK$32,351,000 (2007: HK$33,155,000) from Internet-protocol ("IP") phone, HK$26,563,000 (2007: HK$9,943,000) from call centres, and HK$4,660,000 (2007: HK$6,748,000) from other value-added services. The decrease in turnover was mainly due to the decrease in SMS revenue and fixed-line IVRS revenue, despite a substantial percentage increase in revenues from the call centre and mobile IVRS businesses. SMS revenue decreased by 39.3% or HK$44,511,000 due to the policies changes implemented by China Mobile and China Unicom to regulate the SMS market since the second half of 2006. In June 2006, the Ministry of Information Industry promulgated new policy directives to address a number of issues, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development for the service provider industry. In July 2006, China Mobile implemented policies changes, such as requiring its users to subscribe to monthly packages for SMS/MMS services, therefore reducing the number of complaints by its users for accidentally downloading unwanted SMS/MMS contents, followed by similar policies changes implemented by China Unicom in September 2006. These policies continued to have significant negative impacts on all service providers in the PRC, including HL95, in the current year. In May 2007, China Mobile took further actions, such as excluding HL95's and other service providers' contents from the embedded menus of mobile phones that are customized for China Mobile. The mobile telecom operators also used aggressive marketing tactics such as offering content providers a higher percentage of fee-sharing (thereby inducing content providers to work with the mobile telecom operators instead of service providers like HL95), and setting lower prices for their SMS content to attract users to buy SMS content from them instead of service providers like HL95. Fixed-line IVRS revenue decreased by 33.1% or HK$31,144,000 due to increased marketing and promotion efforts by HL95's main fixed-line IVRS competitors China Netcom and China Telecom, and aggressive marketing tactics employed by these fixed-line telecom operators to gain market share from service providers like HL95 since the beginning of 2007. These aggressive marketing tactics employed by fixed-line telecom operators include restricting the amount of monthly revenues that service providers like HL95 can earn from the customers of the fixed-line telecom operators, offering a higher percentage of fee-sharing with content providers (thereby inducing content providers to work with the fixed-line telecom operators instead of service providers like HL95), and setting lower prices for their fixed-line IVRS content to attract users to buy the IVRS content from the fixed-line telecom operators instead of service providers like HL95. These aggressive marketing tactics of the fixed-line and mobile telecom operators negatively affected HL95's market share for fixed-line IVRS and SMS, respectively. Increase in mobile IVRS revenue by 68.8% or HK$12,091,000 was due to co-operation with radio stations to provide IVRS related services across China. Increase in call centre revenue by 167.2% or HK$16,620,000 was due to expansion of the call centre business and included major accounts and additional business from China Mobile Guangdong and CITIC Bank.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– *Turnover (Continued)*

(b) 廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle"), a wholly-owned subsidiary of the Group, is engaged in software development and system integration services and its turnover for the year ended 31st March 2008 was HK$2,274,000 as compared with the turnover of HK$10,489,000 for the year ended 31st March 2007. Since the fiscal year ended 31st March 2007, management has been scaling down the operations of Grand Cycle due to the highly competitive nature and the long collection period inherent in the industry for providing system integration services to the telecom industry.

The decrease in turnover of HL95 and Grand Cycle was partly offset by a robust increase in turnover of 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT"), a 50%-owned jointly controlled entity of the Group engaged in the PIATS business. The Group's share of the turnover of CCIT for the year ended 31st March 2008 increased by 589.2% to HK$6,279,000 from HK$911,000 for the year ended 31st March 2007. In December 2007, the government issued a policy for all manufacturers of 69 product types in the PRC to mandatorily join PIATS (further details of which are set out under "Business Review – CCIT" below). As a result of this policy, CCIT has experienced significant increase in turnover starting in March 2008 due to these types of manufacturers joining PIATS.

– *Gross profit percentage*

The gross profit percentage of the Group during the year ended 31st March 2008 decreased to 21.3% from 22.7% during the year ended 31st March 2007, mainly because of decrease in gross profit margin for HL95.

HL95's gross profit percentage declined because it had to give a higher share of IVRS/SMS revenue to telecom operators, therefore service providers like HL95 took a smaller share of the revenue, and the aggressive marketing tactics employed by the telecom companies. Service providers like HL95 must work with telecom operators in providing IVRS/SMS content services to customers of fixed-line and mobile telecom operators, and these customers pay a fee for accessing such content. Service providers must share this content fee with the telecom operators and content providers. Fixed-line telecom operators and mobile telecom operators also offer their own IVRS content and SMS content, respectively, to customers and compete with service providers like HL95 for market share. Mobile and fixed-line telecom operators like China Mobile and China Telecom have been more aggressive in taking up more market share for SMS and fixed-line IVRS, respectively, by setting lower prices for their SMS/IVRS content to attract users to buy such content. Since the mobile and fixed-line telecom operators only have to share fees received from users of their SMS/IVRS content with content providers (whereas service providers like HL95 must share fees received from users of their SMS/IVRS content with the telecom operators and content providers), these telecom operators have more margin and can set the price of their SMS/IVRS content lower than service providers like HL95 to attract users to buy their SMS/IVRS content. HL95's gross profit margin was also affected by the increased depreciation charge mainly due to the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– *Other income*

Other income principally comprised interest income of HK$16,664,000, change in fair value of held for trading investments of HK$2,160,000 and write back of long outstanding payables of HK$1,523,000. In the year ended 31st March 2007, other income principally comprised interest income of HK$23,391,000 and change in fair value of held for trading investments of HK$3,236,000.

– *Administrative expenses (excluding staff costs)*

Administrative expenses excluding staff costs for the year ended 31st March 2008 was HK$73,269,000, representing a decrease of 1.3% over HK$74,256,000 for the previous year. The decrease was mainly due to the Group's efforts in controlling costs when turnover declined.

– *Staff costs (excluding share option expense)*

Staff costs excluding share option expense for the year ended 31st March 2008 was HK$66,657,000, representing an increase of 2.7% over HK$64,902,000 for the previous year. The increase was mainly due to headcount to cope with the development of the PIATS platform and rollout of PIATS, and the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan.

– *Share option expense*

Share option expense of HK$3,751,000 (2007: HK$1,272,000) represents a non-cash expense recorded by the Group in accordance with the requirements of HKFRS 2 Share-based Payment. Under HKFRS 2 the fair value of share options granted to directors and employees of the Group 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. During the year ended 31st March 2008, the Company issued 44,000,000 new share options to employees of the Group, resulting in an increase in share option expense recognized by the Group.

– *Change in fair value of convertible bonds*

The Group recorded a loss on change in fair value of convertible bonds of HK$11,395,000 for the year ended 31st March 2008 (2007: HK$19,807,000). The Company issued US$55,000,000 and US$15,000,000, 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 Group has adopted HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for the Bonds. The Bonds are carried at fair value at the balance sheet date and the change in fair value of the Bonds between 31st March 2007 and 31st March 2008 is recognized in the income statement during the year ended 31st March 2008. The decrease in loss on change in fair value was due to conversion of US$41,000,000 of the Bonds into shares and redemption of US$16,000,000 of the Bonds during the year ended 31st March 2008. The convertible bonds liability was HK$84,653,000 as at 31st March 2008 compared to HK$543,765,000 as at 31st March 2007.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– *Change in fair value of loan receivable*

On 3rd March 2006, CITIC 21CN Telecom Company Limited (a wholly owned subsidiary of the Group), entered into loan agreements with CCIT 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 PIATS business.

On 22nd May 2008, the loan was renewed and the term of the loan was extended for a period of three years ending 23rd March 2011. As at 31st March 2008, the amount of the loan receivable stated in the consolidated balance sheet was HK$25,039,000 (2007: HK$26,306,000) after inter-company balance elimination of the Group's 50% share of CCIT and a fair value adjustment of HK$1,921,000 for deemed interest. Adjustment in fair value of loan receivable arises from the adoption of HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement for loan receivable. On the adoption of these accounting standards, the difference of HK$1,921,000 (2007: N/A) between the fair value and the face value of the loan receivable was recognized as an expense in the income statement. The effective interest rate applied to the loan receivable was 2.5%.

– *Share of profit of an associate*

Share of profit of an associate represents the share of profit of a 30%-owned associate, 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited) ("Dongfang Customs"), a joint venture with the PRC Customs Department and China Telecom, engaged in electronic customs processing and other electronic government services. The share of profit of Dongfong Customs was HK$11,520,000 for the year ended 31st March 2008, an increase of 71.5% as compared with HK$6,718,000 for the year ended 31st March 2007. The increase was mainly due to increase in revenue from sales of SIM cards, readers and value-added cards as a result of increase in number of users, as well as electronic port maintenance service fee. SIM cards and readers are used by customers to access the system for electronic custom filing and declaration. Currently, Dongfang Customs has around 430,000 customers compared to around 340,000 customers one year ago. Value-added cards are purchased by the customers to recharge the value for the use of SIM cards. Dongfang Customs also provides maintenance service to the system for electronic custom filing and declaration and receives service fee accordingly.

– *Loss before interest, taxes, depreciation and amortization, and after minority interests*

Loss before interest, taxes, depreciation and amortization, and after minority interests for the year ended 31st March 2008 was HK$54,807,000, representing an increase of 20.0% over HK$45,684,000 for the previous year, mainly because of the decrease in turnover and gross profit percentage, partly offset by the decrease in loss on change in fair value of convertible bonds and increase in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above.

– *Net loss attributable to shareholders*

Net loss attributable to shareholders for the year ended 31st March 2008 was HK$75,860,000, representing an increase of 24.4% over HK$60,998,000 for the previous year, mainly because of the decrease in turnover and gross profit percentage, partly offset by the decrease in loss on change in fair value of convertible bonds and increase in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above.

– *Loss per share*

Basic loss per share was HK2.10 cents for the year ended 31st March 2008, representing an increase of 14.1% over HK1.84 cents for the previous year, mainly because of the decrease in turnover and gross profit percentage, partly offset by the decrease in loss on change in fair value of convertible bonds and increase in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above. The increase in loss per share was diluted by the conversion of US$41,000,000 of the Bonds into shares during the year ended 31st March 2008.

FINANCIAL REVIEW *(Continued)*

Financial Resources, Liquidity and Foreign Exchange Exposures

The financial positions of the Group as at 31st March 2008 and the corresponding comparative figures as at 31st March 2007 are summarized as follows:

	31st March	
	2008	2007
	HK$'000	HK$'000
Current assets	**464,545**	672,584
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	**288,322**	453,984
– debtors	**76,724**	108,965
Current liabilities	**108,203**	81,065
– including short-term bank loans	**26,950**	12,373
Current ratio (current asset/current liabilities)	**4.29**	8.30
Quick ratio (bank balances and cash & debtors/current liabilities)	**3.37**	6.94
Shareholders' equity	**607,506**	318,240
Convertible bonds	**84,653**	543,765
Gearing ratio (bank loans and convertible bonds/shareholders' equity)	**18.37%**	174.75%

Bank balances and cash decreased by 36.5% from HK$453,984,000 as at 31st March 2007 to HK$288,322,000 as at 31st March 2008. The decrease in cash was principally due to the redemption of US$16,000,000 of convertible bonds, the development of the PIATS project and the operations of HL95, partly offset by trade debtors recovered and new bank loans drawn during the year ended 31st March 2008.

FINANCIAL REVIEW *(Continued)*

Financial Resources, Liquidity and Foreign Exchange Exposures *(Continued)*

As at 31st March 2008, trade debtors aged over 12 months were HK$16,391,000 (31st March 2007: HK$16,429,000), most of which were related to system integration and software development business.

Bank loans on the consolidated balance sheets as at 31st March 2008 and 31st March 2007 were the Group's share of HL95's bank loans, which were short-term in nature, denominated in Renminbi and repayable within one year, and carried interest at prevailing market rates.

As at 31st March 2008, the current ratio decreased to 4.29 from 8.30 as at 31st March 2007, and the quick ratio also decreased to 3.37 from 6.94, mainly due to the decrease in bank balances and cash as explained above.

Shareholders' equity increased from HK$318,240,000 as at 31st March 2007 to HK$607,506,000 as at 31st March 2008, mainly because of the conversion of US$41,000,000 of convertible bonds into shares, offset by net loss of the Group incurred during the year ended 31st March 2008.

The Group's gearing ratio decreased from 174.75% as at 31st March 2007 to 18.37% as at 31st March 2008, mainly because of the conversion of US$41,000,000 of convertible bonds into shares and the redemption of US$16,000,000 of convertible bonds, offset by net loss of the Group incurred and new bank loans drawn during the year ended 31st March 2008.

The Group's operations and transactions are principally located in the PRC. Other than the convertible bonds which are denominated in US dollars and the bank balances and cash most of which are placed in fixed deposits and liquid investments denominated in US dollar or Hong Kong dollar, other assets and liabilities are mainly denominated in either Hong Kong dollar or Renminbi. The Directors believe that there will not be material fluctuation in the exchange rate of US dollar against Hong Kong dollar, the reporting currency, in the foreseeable future, and the gradual and slight increase in the exchange rate of Renminbi against Hong Kong dollar would result in exchange gain for the Group as the net assets of the Group's operating subsidiaries and jointly controlled entities in the PRC are denominated in Renminbi. Therefore, the operations of the Group are not subject to significant exchange rate risk.

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, the pharmaceutical industry 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 sized manufacturers. As a result, the Group has received strong support from the PRC government.

- ### CCIT

  CCIT, a joint venture among the Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("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 of product information to the manufacturers from the manufacturing to the distribution and sale of the product; the provision of a simple, convenient and efficient way for the consumers to enquire product information, and check whether the products are counterfeit products or products with poor quality or safety; and the provision of an interactive channel for the consumers to report counterfeit products or products with poor quality or safety. CCIT has established a leading position in the PRC information service sector by providing manufacturers and consumers with these information value-added services.

  During the current year, CCIT continued to obtain strong support from government departments such as AQSIQ, State Administration of Industries and Commerce ("SAIC"), Ministry of Commerce ("MOC"), State Food and Drugs Administration ("SFDA") and Ministry of Agriculture ("MOA"). In July 2007, the State Council announced on its website 國務院關於加強食品等產品安全監督管理的特別規定 (State Council's Special Regulations to Strengthen the Supervision and Monitoring of Safety of Food and Other Products) which, amongst other things, requires manufacturers to be responsible for safety and quality of their products, and if the manufacturer's products do not meet the legal requirements, the manufacturer may lose its operating licence, be considered to be producing inferior or counterfeit goods, and be subject to legal actions. In September 2007, the website of AQSIQ announced that a Task Force on product quality and food safety under the State Council will strive to monitor products and food with the use of PIATS. The Task Force, with members from AQSIQ, MOC and SAIC, is planning to use PIATS to enforce a nationwide product tracking and authentication system in order to control the production, sales and distribution of products at all stages of production and distribution cycle. Mr. Li Changjiang, Vice Head of the Task Force and the Director of AQSIQ, announced that the PRC government will implement mandatory measures for those enterprises identified to use PIATS so that such enterprises will not be able to distribute their products in the wholesale and retail networks if they do not adopt the PIATS system. From September 2007, 28 major brands of bottled water in Beijing have started to use PIATS by attaching the PIATS bar code to serve as an "electronic identification" to assure consumer confidence. In November 2007, it was announced in the Beijing Olympic Games website that all food products for the 2008 Beijing Olympic Games must be electronically monitored by PIATS. In December 2007, AQSIQ, SAIC and MOC jointly announced the requirement for 69 types of key products in 9 industries which require manufacturing permits (生產許可証) and the China Compulsory Product Certification ("CCC") (強制性產品認証) to mandatorily join PIATS and include the PIATS barcode on the product package as a measure to enhance the supervision and monitoring of product quality and food safety for products manufactured in the PRC, otherwise the manufacturers of these products cannot sell their products (details of which are set out in the Company's announcement dated 7th December 2007). All these efforts have had very positive impact on the roll-out of PIATS and the participation of enterprises in PIATS, particularly starting in March 2008. Since the initial roll-out of PIATS to the date of the announcement for the final results for the year ended 31st March 2008, over 64,000 manufacturers across China have joined PIATS, representing an increase of more than 100% since December 2007, and over 2,500 million pieces of products attached with the PIATS barcodes have gone to the market, representing an increase of more than 300% since December 2007.

BUSINESS REVIEW *(Continued)*

- ### CCIT *(Continued)*

In order to make PIATS more easily accessible by users across the country, PIATS enquiry services has been included in the nation-wide hotline/Directory Assistance Information Service 114, 116114 and 118114 of China Telecom and China Netcom after the signing of co-operation contracts with China Telecom and China Netcom. Moreover, the co-operation contracts with China Telecom and China Netcom cover the distribution of PIATS telephone terminals to be installed in the selected supermarkets, shops, farm product supply stations, hospitals and drug stores. Similar co-operation contract has also been signed with China Mobile.

The scope of PIATS business has also been extended to drugs. In October 2007, SFDA has made it a requirement for pharmaceutical manufacturers of two kinds of government controlled drugs: anaesthetics and Type I mental disorder drugs, to mandatorily use the PIATS system. In April 2008, SFDA issued a policy to mandatorily require, by the end of October 2008, manufacturers and distributors of Type II mental disorder drugs and certain types of non-government controlled ordinary drugs such as blood products, vaccine and traditional Chinese medicines to use PIATS. Furthermore, this policy also mandatorily requires that, starting from 2009, the scope of use of PIATS will be gradually extended to all types of non-government controlled ordinary drugs and medical equipment.

Future prospect

Since the launch of PIATS, it has experienced positive response from manufacturers, consumers, AQSIQ, SFDA, SAIC, MOC, MOA, other government departments and even at the State Council and the National People's Congress of the PRC. Senior government officials have provided tremendous support for PIATS since it reduces counterfeit products, improves product safety and foods and drugs safety, and protects consumers, manufacturers, the pharmaceutical industry and intellectual property rights. The Group will continue to sign up manufacturers, drug producers and drug distributors to join PIATS in accordance with the government policies to enhance the supervision and monitoring of product quality, food safety and drug safety for products manufactured in the PRC. Since March 2008, the Group has experienced a significant increase in income from the joining fees for those manufacturers which are required to mandatorily join PIATS as a result of the policy issued in December 2007 by AQSIQ, SAIC and MOC for manufacturers of 69 product types to join PIATS. The Group plans to roll-out value-added services to these manufacturers at the end of 2008. In addition, the Group has recently experienced increases in joining fees for those manufacturers and distributors in the pharmaceutical industry which are mandatorily required to use PIATS as set out in SFDA's policy in April 2008. The Group plans to launch value-added services and other products to those in the pharmaceutical industry at the end of 2008. The Group believes that the roll-out of value-added services and other products, together with the joining fees, will significantly increase revenues from PIATS in the future. Given that there are no other companies that can provide a similar service as PIATS and the strong government support, the Directors believe PIATS continues to have great potential in the coming future.

- ### HL95

HL95 is a nationwide telecommunications/information VAS company in the PRC and is licensed by the Ministry of Information Industry on the provision of SMS, IVRS and other telecom services in the PRC. HL95 provides IVRS services through both fixed telephone line network and mobile phone network, and SMS services through the mobile phone network (both in collaboration with the telecom operators) which covers the whole country. HL95 offers governmental, commercial and entertainment information through its SMS and IVRS services. HL95 also provides other telecommunication/information VAS such as IP phone service and call centre services.

BUSINESS REVIEW *(Continued)*

- **HL95** *(Continued)*

  Future prospect

  Due to the additional businesses from various financial institutions, China Mobile Guangdong and PIATS, HL95 has been expanding its call centre capacity in Beijing, Shenzhen and Foshan. HL95 plans to open more call centres in other parts of China to expand its call centre business. HL95 is also working with Salesforce, the largest outsourcing call centre operator in Australia and one of the top call centre operators in the world, to upgrade and expand HL95's call centre business, and explore other call centre related business opportunities in China. Call centre revenues have been increasing robustly in the past few years, and the Directors believe that the call centre revenues will continue to grow rapidly. The Group plans to expand the call centre business with the assistance of Salesforce and the relationship it has with the CITIC Group, China Mobile, PIATS and other customers. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CCIT, in providing the PIATS service, uses HL95's platform to enable consumers anywhere in the PRC to enquire product information by using HL95's IVRS and SMS systems and call centres. The Directors believe that HL95 has good potential in the call centre industry and at the same time can provide valuable support to PIATS.

- **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. Currently, Dongfang Customs has around 430,000 users. Users are principally charged a time-based telecommunication fee for accessing the network platform.

  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 minimizing the handling costs involved in the declaration. In the past year, the number of users using Dongfang Customs services has increased at a healthy 26.5% to around 430,000. However, given that there are only around 430,000 users, and China is the manufacturing base for the world, the Directors believe that there is great potential for Dongfang Customs to increase its users base. In addition, the Group anticipates that the number of users will increase in line with the economic growth of the PRC.

  Having a unique advantage of electronic customs processing platform and growing users base, Dongfong Customs is now extending to other areas for future business development and is in the process of developing a nation-wide electronic logistics platform.

- **Grand Cycle**

  Grand Cycle is engaged in system integration and software development.

  Future prospect

  Grand Cycle will focus on the system integration and software development support for the rapid and continuing expansion of the businesses of HL95 and PIATS.

EMPLOYEES AND REMUNERATION POLICIES

The numbers of full-time employees of the Group as at 31st March 2008 are detailed as follows:

Location	Telecommunications/ information value-added services	PIATS business	System integration and software development	Corporate	Associate
– Hong Kong	–	–	–	13	–
– The PRC	1,727	99	7	–	300
Total	1,727	99	7	13	300

Total staff costs of the Group for the year ended 31st March 2008 were HK$70,408,000. 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 2008, 44,000,000 new share options were granted to employees of the Group.

Directors' Report

The Directors submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st March 2008.

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 Product Identification, Authentication and Tracking System ("PIATS"), system integration and software development.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 31 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 33 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 consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the consolidated 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 78 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
Ms. Xia Guilan

Independent Non-Executive Directors

Dr. Hui Ho Ming, Herbert, JP
Mr. Zhang Jian Ming
Mr. Liu Hongru

In accordance with Clause 99 of the Bye-laws of the Company, Ms. Chen Xiao Ying, Mr. Luo Ning and Mr. Liu Hongru will retire by rotation at the forthcoming annual general meeting.

Mr. Liu Hongru, owing to the reason of his age, does not offer himself for re-election. Ms. Chen Xiao Ying and Mr. Luo Ning, being eligible, offer themselves for re-election. The Board will procure a suitable person fill up the vacancy left by Mr. Liu Hongru.

No Director being 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 on the Stock Exchange. 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 24 to 25 of this annual report.

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Other than the convertible bonds and share options as set out in notes 28 and 31 respectively to the consolidated financial statements, the Company had no outstanding convertible securities, options or other similar rights as at 31st March 2008. Particulars of the conversion of the convertible bonds or similar rights during the year are set out in the aforesaid notes.

SHARE OPTION

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 of the Company 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 2007	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	At 31st March 2008	Share option Scheme
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 *(Continued)*

				Number of options						
	Date of grant	Exercise price HK$	Exercise period	At 1st April 2007	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	At 31st March 2008	Share option Scheme
Employees	13.7.2000	0.9900	13.7.2002 to 27.5.2008	200,000	–	–	–	–	200,000	Δ
	22.9.2004	1.2300	22.9.2007 to 22.10.2007	600,000	–	(600,000)	–	–	–	∂*
	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	366,666	–	–	–	–	366,666	∂
	2.3.2005	2.525	2.9.2006 to 1.3.2015	366,667	–	–	–	–	366,667	∂
	2.3.2005	2.525	2.3.2008 to 1.3.2015	366,667	–	–	–	–	366,667	∂
	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	1.6.2007 to 30.6.2007	2,533,333	–	(2,533,333)	–	–	–	∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	2,533,334	–	–	–	–	2,533,334	∂
	1.6.2005	2.175	1.6.2009 to 30.6.2009	200,000	–	–	–	–	200,000	∂
	1.6.2005	2.175	1.6.2010 to 30.6.2010	200,000	–	–	–	–	200,000	∂
	4.6.2007	2.500	4.6.2008 to 3.6.2017	–	13,200,000	–	(900,000)	–	12,300,000	∂
	4.6.2007	2.500	4.6.2009 to 3.6.2017	–	8,800,000	–	(600,000)	–	8,200,000	∂
	4.6.2007	2.500	*Note (a)*	–	11,000,000	–	(750,000)	–	10,250,000	∂
	4.6.2007	2.500	*Note (b)*	–	11,000,000	–	(750,000)	–	10,250,000	∂
				11,366,667	44,000,000	(3,133,333)	(6,000,000)	–	46,233,334	
				236,366,667	44,000,000	(3,133,333)	(6,000,000)	–	271,233,334	

Note:

(a) These options are exercisable upon a trigger event of the Company's share price quoted on the Stock Exchange equal to HK$8 or above from date of grant until 3.6.2017.

(b) These options are exercisable upon a trigger event of the Company's share price quoted on the Stock Exchange equal to HK$12 or above from date of grant until 3.6.2017.

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 Beijing Honglian 95 Information Industries Company Limited, a jointly controlled entity of the Group.

SHARE OPTION *(Continued)*

The share options granted are recognised in the consolidated financial statements in accordance with the accounting policy of the Group as set out in note 3 to the consolidated 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.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution at the balance sheet date.

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 2008, 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)]**	**Aggregate interests**
Mr. Wang Jun	–	30,000,000	30,000,000
Ms. Chen Xiao Ying	784,937,030[(1)]	160,000,000	944,937,030
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	1,009,937,030

(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" above.

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 2008, 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	Total interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited *(note (a))*	Beneficial owner	784,937,030	784,937,030	21.11%
21CN Corporation *(note (a))*	Interest of controlled corporation	784,937,030	784,937,030	21.11%
Pollon Internet Corporation *(note (a))*	Interest of controlled corporation	784,937,030	784,937,030	21.11%
CITIC Group ("CITIC") *(note (b))*	Interest of controlled corporation	807,998,000	807,998,000	21.73%

(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.

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

During the year, the Group entered into certain connected transactions, as defined in Chapter 14A of the Listing Rules of the Stock Exchange, which are also related party transactions, references to which are set out in note 36 to the consolidated financial statements.

Regarding all the connected transactions mentioned, the Independent Non-Executive Directors have reviewed and confirmed that all such transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant master agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 SCHEME

Details of the Group's retirement benefits schemes are set out in note 35 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchase during the year attributable to the Group's five largest suppliers was 11% of the total purchases of the Group, of which 6% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 12% of the total turnover of the Group, of which 7% 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 consolidated financial statements.

LITIGATION

Details of litigation are set out in note 37 to the consolidated financial statements.

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 26 to 29 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 2008 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 26 to 29 of this annual report.

AUDITOR

Messrs. Deloitte Touche Tohmatsu acted as auditor of the Company for the past two years. Messrs. PricewaterhouseCoopers, Certified Public Accountants act as auditor of the Company for the financial year ended 31st March 2005.

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

On behalf of the Board

Chen Xiao Ying
EXECUTIVE VICE CHAIRMAN

Hong Kong, 23rd July 2008

The Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. WANG Jun, aged 67, 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. Mr. Wang recently retired as the Chairman of CITIC Group in Beijing. Mr. Wang continues to be the Chairman of Poly (Hong Kong) Investment Limited, the Chairman and Executive Director of Goldbond Group Holdings Limited and Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Ms. CHEN Xiao Ying, aged 45, is the Executive Vice Chairman of the Company. Ms. Chen is responsible for setting overall corporate strategies and their implementation for the Group. Currently, she is a Non-executive Director of China Resources Power Holdings Company Limited which is listed on the Main Board of the Stock Exchange of Hong Kong. She has been Chairman of the Pollon Group, a private investment group, since its inception in 1989, and which invests in power plants, telecommunications 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 49, is the Vice Chairman of the Company. He is an Assistant President of CITIC Group. He is also a Director of CITIC Information Leadership Group under CITIC Group. Mr. Luo has over 16 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 40, is an Assistant President of CITIC Group, Vice Chairman and 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 63, 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 45, is currently the Vice Chairman of CITIC Guoan Group and CITIC Guoan Information Industries Company Limited. Ms. Xia has served as Director since August 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. HUI Ho Ming, Herbert, JP, aged 50, has over 20 years experience in merchant banking, securities regulation as well as extensive commercial and corporate finance experience. He is currently the chairman of the China Supply Company Limited and Vice Chairman of both the First Vanguard Private Equity Limited and iMagic Media Limited. Dr. Hui serves on the boards of a number of publicly listed companies as well as public bodies. He is currently the Vice Chairman of the Hong Kong Council for Academic Accreditation and Vocational Qualification and the Chairman of the Finance Committee of the APAS Research and Development Centre. He is the Immediate Past Chairman of the Hong Kong Institute of Directors, and from 1992 to 1997, he served as the Deputy Chief Executive and Head of the Listing Division of the Hong Kong Stock Exchange Limited. He serves as an Independent Non-Executive Director on the boards of the Company and Dynasty Fine Wines Group Limited, and as an executive director on the board of Ocean Grand Holdings Limited (Provisional Liquidators Appointed) and Ocean Grand Chemicals Limited (Provisional Liquidators Appointed), all of whom are listed on the main board of the Hong Kong Stock Exchange.

Mr. ZHANG Jian Ming, aged 47, 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 77, 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 Capital Market Research Institute, an Independent Non-Executive Director of Petrochina 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 44, 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 20 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 Report

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 CG 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 1st 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 99 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 CG Code;

(c) The Chairman did not attend in the annual general meeting of the Company held on 28th August 2007. The meeting was conducted 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 24 to 25 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 Company views that 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 *(Continued)*

Function *(Continued)*

The Board held five regular Board meetings at approximately quarterly interval during the year ended 31st March 2008 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. Individual attendance of each director at the Board meetings and the Audit Committee meetings during the year ended 31st March 2008 are set out in the table below:

	Attendants/Number of Meetings	
Directors	*Board*	*Audit Committee*
Executive Directors		
Mr. Wang Jun *(Chairman)*	5/5	
Ms. Chen Xiao Ying *(Executive Vice Chairman)*	5/5	
Mr. Luo Ning *(Vice Chairman)*	4/5	
Mr. Sun Yalei	5/5	
Mr. Zhang Lian Yang	5/5	
Ms. Xia Guilan	5/5	
Independent Non-Executive Directors		
Dr. Hui Ho Ming, Herbert, JP	5/5	2/2
Mr. Liu Hongru	5/5	2/2
Mr. Zhang Jian Ming	5/5	2/2

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 Dr. 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 exercise powers of the Board to determine and review the remuneration packages of executive directors and senior management, including salaries, bonuses, benefits in kind, pension rights, compensation payments and the terms on which they participate in any share option and 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 2008.

THE BOARD *(Continued)*

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors, Mr. Liu Hongru, Mr. Zhang Jian Ming and Dr. Hui Ho Ming, Herbert, JP. Dr. Hui Ho Ming, Herbert, JP as the 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;

(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 two meetings for the financial year ended 31st March 2008.

Other Information

The Board has not established a nomination committee. According to the Bye-Laws 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 2008.

AUDITORS' REMUNERATION

The remuneration paid to Deloitte Touche Tohmatsu for audit and non-audit services for the year ended 31st March 2008 amounted to HK$1,800,000 and HK$95,000 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 their responsibility for preparing the Company's financial statements of the Group (the "Financial Statements") which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certificated Public Accountants. The Directors endeavour to ensure a balanced, clear and understandable assessments of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable.

The statement of the Company's auditors about their reporting responsibilities on the Financial Statements is set out in the Independent Auditor's Report on page 30.

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 (collectively referred to as the "Group") set out on pages 31 to 77, which comprise the consolidated balance sheet as at 31st March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
23rd July 2008

Consolidated Income Statement

For the year ended 31st March 2008

	NOTES	2008 HK$'000	2007 HK$'000
Turnover	7	**233,374**	286,057
Cost of sales and services		**(183,765)**	(221,127)
Gross profit		**49,609**	64,930
Other income	9	**20,823**	27,098
Change in fair value of convertible bonds		**(11,395)**	(19,807)
Administrative expenses		**(145,598)**	(140,430)
Share of profit of an associate		**11,520**	6,718
Finance costs	10	**(1,359)**	(721)
Loss before taxation	11	**(76,400)**	(62,212)
Taxation	12	**(133)**	(2,353)
Loss for the year		**(76,533)**	(64,565)
Attributable to:			
Equity holders of the Company		**(75,860)**	(60,998)
Minority interests		**(673)**	(3,567)
		(76,533)	(64,565)
		HK cents	HK cents
Loss per share			
– Basic	15	**(2.10)**	(1.84)

Consolidated Balance Sheet

At 31st March 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**122,735**	98,691
Intangible assets	17	**74,459**	72,013
Interest in an associate	18	**105,345**	93,276
Loan receivable	19	**25,039**	–
Available-for-sale investments	20	**8,250**	7,173
		335,828	271,153
Current assets			
Inventories	21	**1,437**	1,110
Amounts due from customers for contract work	22	**18,662**	17,974
Debtors and prepayments	23	**138,201**	157,293
Taxation recoverable		**–**	522
Investments held for trading	24	**17,923**	15,395
Loan receivable	19	**–**	26,306
Bank balances and cash	25	**288,322**	453,984
		464,545	672,584
Current liabilities			
Creditors and accruals	26	**81,112**	68,692
Taxation payable		**141**	–
Short-term bank loans	27	**26,950**	12,373
		108,203	81,065
Net current assets		**356,342**	591,519
Total assets less current liabilities		**692,170**	862,672
Non-current liabilities			
Convertible bonds	28	**84,653**	543,765
		607,517	318,907
Capital and reserves			
Share capital	29	**37,179**	33,370
Reserves	30	**570,327**	284,870
Equity attributable to equity holders of the Company		**607,506**	318,240
Minority interests		**11**	667
Total equity		**607,517**	318,907

The financial statements on pages 31 to 77 were approved and authorised for issue by the Board of Directors on 23rd July 2008 and are signed on its behalf by:

Chen Xiao Ying
DIRECTOR

Zhang Lian Yang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st March 2008

	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$'000 *(Note 30)*	Accumu-lated losses HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April 2006	33,086	417,555	19,215	78,108	3,621	23,921	11,851	(249,592)	337,765	3,673	341,438
Exchange differences arising on translation of the Group's operations into the presentation currency of the Group recognised directly in equity	–	–	–	–	16,739	–	–	–	16,739	561	17,300
Loss for the year	–	–	–	–	–	–	–	(60,998)	(60,998)	(3,567)	(64,565)
Total recognised income and expenses for the year	–	–	–	–	16,739	–	–	(60,998)	(44,259)	(3,006)	(47,265)
Recognition of equity-settled share based payments	–	–	–	–	–	1,272	–	–	1,272	–	1,272
Lapse of share options	–	–	–	–	–	(1,948)	–	1,948	–	–	–
Issue of shares on conversion of convertible bonds	284	23,178	–	–	–	–	–	–	23,462	–	23,462
	284	23,178	–	–	–	(676)	–	1,948	24,734	–	24,734
At 31st March 2007	33,370	440,733	19,215	78,108	20,360	23,245	11,851	(308,642)	318,240	667	318,907
Exchange differences arising on translation of the Group's operations recognised directly in equity	–	–	–	–	28,624	–	–	–	28,624	17	28,641
Loss for the year	–	–	–	–	–	–	–	(75,860)	(75,860)	(673)	(76,533)
Total recognised income and expenses for the year	–	–	–	–	28,624	–	–	(75,860)	(47,236)	(656)	(47,892)
Recognition of equity-settled share based payments	–	–	–	–	–	3,751	–	–	3,751	–	3,751
Lapse of share options	–	–	–	–	–	(2,031)	–	2,031	–	–	–
Issue of shares on conversion of convertible bonds	3,809	328,942	–	–	–	–	–	–	332,751	–	332,751
	3,809	328,942	–	–	–	1,720	–	2,031	336,502	–	336,502
At 31st March 2008	**37,179**	**769,675**	**19,215**	**78,108**	**48,984**	**24,965**	**11,851**	**(382,471)**	**607,506**	**11**	**607,517**

Consolidated Cash Flow Statement

For the year ended 31st March 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
Loss before taxation	**(76,400)**	(62,212)
Adjustments for:		
Interest income	**(16,009)**	(22,749)
Dividend from equity securities	**(41)**	–
Imputed interest income on loan receivable	**(655)**	(642)
Change in value of loan receivable resulting from extension of maturity	**1,921**	–
Change in fair value of convertible bonds	**11,395**	19,807
Finance costs	**1,359**	721
Share of profit of an associate	**(11,520)**	(6,718)
Depreciation	**15,770**	11,328
Amortisation of intangible assets	**3,791**	912
Loss on disposal of property, plant and equipment	**3,020**	1,489
Share option expense	**3,751**	1,272
Operating cash flows before movements in working capital	**(63,618)**	(56,792)
(Increase) decrease in inventories	**(218)**	489
Increase in held for trading investments	**(2,528)**	(15,395)
Decrease in amounts due from customers for contract work	**872**	13,732
Decrease in debtors and prepayments	**31,603**	44,364
Increase (decrease) in creditors and accruals	**6,013**	(33,184)
Cash used in operations	**(27,876)**	(46,786)
Interest received	**16,009**	22,749
Dividend received from equity securities	**41**	–
Taxation refund (payment)	**530**	(11,832)
Net cash used in operating activities	**(11,296)**	(35,869)
Investing activities		
Purchase of property, plant and equipment	**(35,366)**	(38,002)
Purchase of intangible assets	**–**	(72,925)
Proceeds from disposal of available-for-sale investments	**5**	564
Net cash used in investing activities	**(35,361)**	(110,363)

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31st March 2008

	2008 HK$'000	2007 HK$'000
Financing activities		
Repayment of convertible bonds	(137,756)	–
Repayment of short-term bank loans	(12,863)	(21,719)
Interest paid	(1,359)	(721)
New short-term bank loans raised	25,725	21,719
Net cash used in financing activities	(126,253)	(721)
Decrease in cash and cash equivalents	(172,910)	(146,953)
Cash and cash equivalents at beginning of the year	453,984	592,978
Effect of foreign exchange rate changes	7,248	7,959
Cash and cash equivalents at end of the year, representing bank balances and cash	288,322	453,984

1. GENERAL

CITIC 21CN Company Limited (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 address of its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Company 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 and Tracking System ("PIATS"), 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" section of the annual report.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 (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 March 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment
HK(IFRIC)-INT 11	HKFRS 2: Group and treasury share transactions

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7, retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The application of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] Effective for annual periods beginning on or after 1st January 2009.
[2] Effective for annual periods beginning on or after 1st July 2009.
[3] Effective for annual periods beginning on or after 1st January 2008.
[4] Effective for annual periods beginning on or after 1st July 2008.

The adoption of HKFRS 3 (Revised) may effect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual report period beginning on or after 1st July 2009. HKAS 23 (Revised) will affect the accounting treatment of borrowing costs recognised on or after the beginning of the first annual report period beginning on or after 1st January 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 prepared on the historical cost basis, except for certain interest free loan receivable which is adjusted to its fair value on initial recognition and 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in the associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets 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 sold and services provided in the normal course of business, net of sales related taxes.

Revenue from telecommunications/information value-added services and product identification authentication, tracking system business is recognised when the services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Service income from system integration and software development contracts (see policy below) is recognised on the percentage of completion method by reference to the value of work carried out during the year.

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

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.

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 consolidated 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 contract costs incurred for work performed to date bear to the estimated total contract 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.

Property, plant and equipment

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

Depreciation is provided 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.

Construction in progress represents property, plant and equipment 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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

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.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 consolidated 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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 ("FVTPL")) 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.

Financial assets

The Group's financial assets include financial assets at FVTPL, 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial assets.

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 trade and other receivables, loan receivable, amounts due from customers for contract work and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

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.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

The objective evidence of impairment of the Group's loans and receivables could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets *(Continued)*

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable, is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at fair value through profit or loss (Continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

The Group designate its convertible bonds at FVTPL, the accounting policy of it is set out as below.

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.

Other financial liabilities

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

Equity instruments

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

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. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised from the Group's balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (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

Share options granted before 7th November 2002 or granted after 7th November 2002 and vested before 1st April 2005

The financial impact of share options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted after 7th November 2002 and vested after 1st April 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with corresponding adjustment to 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement benefit cost

Payments to the state-managed retirement benefit scheme or the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contribution.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

Income taxes

As at 31st March 2008, no deferred tax asset was recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$76,163,000 (2007: HK$75,166,000) 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 consolidated income statement for the period in which such a recognition takes place.

Impairment of tangible and intangible assets on PIATS

Determining whether assets are impaired requires an estimation of the future cash flows expected to arise from the PIATS business and a suitable discount rate in order to calculate present values. Since the PIATS business is in commencement stage, significant estimation is required in determining the future cash flows expected to arise from the PIATS business. The directors of the Company are of the view as there are no other companies that provide a similar service and has such strong government support. Accordingly, the directors believe there is great potential for PIATS. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Fair value of convertible bonds at fair value through profit or loss

The convertible bonds designated at fair value through profit or loss is subject to the limitation of the market value basis that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the market value basis requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Investment held for trading	**17,923**	15,395
Loans and receivables (including cash and cash equivalents)	**390,085**	589,255
Available-for-sale financial assets	**8,250**	7,173
	416,258	611,823
Financial liabilities		
Designated as at FVTPL (see below)	**84,653**	543,765
Amortised cost	**66,104**	57,775
	150,757	601,540

Financial liabilities designated as at FVTPL

	2008 HK$'000	2007 HK$'000
Cumulative increase in fair value attributable to changes in credit risk *(note)*	**602**	532
Changes in fair value attributable to changes in credit risk recognised during the year *(note)*	**70**	390

Note: The change in fair value attributable to change in credit risk is calculated as the difference between total change in fair value of financial liabilities designated at FVTPL of HK$1,147,000 (2007: HK$2,787,000) and the change in fair value of financial liabilities designated at FVTPL due to change in market risk factors alone amounting to HK$1,077,000 (2007: HK$2,397,000). The change in fair value due to market risk factors was calculated using benchmark interest yield curves as at the balance sheet date holding credit risk margin constant. The fair value of financial liabilities designated at FVTPL was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the balance sheet date and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include debtors, investment held for trading, loan receivable, bank balance and cash, creditors, short-term bank loans and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

Market risk

Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	Liabilities		**Assets**	
	2008 HK$'000 equivalent	2007 HK$'000 equivalent	**2008 HK$'000 equivalent**	2007 HK$'000 equivalent
United States Dollars ("USD")	**84,653**	543,765	**217,544**	379,511

Sensitivity analysis

The Group is mainly exposed to the foreign exchange risk of USD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and then translated into presentation currency at closing rate. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an decrease in loss where USD strengthen 5% against RMB. For a 5% weakening of USD against the RMB, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	2008 HK$'000	2007 HK$'000
USD	**6,645**	(8,213)

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowing (see Note 27 for details of these borrowings) and fair value of financial liabilities designated at FVTPL which was estimated by discounting future cash flows using benchmark interest yield curves. However, the management considered the risk of fixed-rate bank borrowing is insignificant to them. The Group's interest rate risk in respect of the convertible bonds is disclosed in other price risk below.

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances. (See Note 25 for details of these bank balances).

The Group currently does not have hedging policy in respect of the interest rate risks. However, management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balance, the analysis is prepared assuming the amount for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31st March 2008 would decrease/increase by HK$526,000 (2007: decrease/increase by HK$598,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balance.

Other price risk

The Group is required to estimate the fair value of the convertible bonds at each balance sheet date, which therefore exposed the Group to equity price risks. Details of the convertible bonds are set out in note 28.

The Group is also exposed to equity price risk through its investments in equity securities listed in Hong Kong and the United States. The management manages these exposure by maintaining a portfolio of investments with different risks. Details of the investment are set out in notes 20 and 24. Management has closely monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

(i) Equity price risk of held-for-trading investment

If the prices of the respective listed equity instruments had been 5% higher/lower loss for the year ended 31st March 2008 increase/decrease by HK$896,000 (2007: increase/decrease by HK$770,000) as a result of the changes in fair value of held-for-trading investment.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk (Continued)

Sensitivity analysis *(Continued)*

(ii) Equity price risk and interest rate risk of convertible bonds

If the equity price of the Company had been 10% higher/lower while all other input variables of the valuation model were held constant, the Group's loss would (increase) decrease as follows:

	2008 HK$'000	2007 HK$'000
Higher by 10%	**(4,329)**	(12,490)
Lower by 10%	**1,736**	9,041

If the benchmark interest yield had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31st March 2008 would decrease/increase by HK$10,000 (2007: decrease/increase by HK$34,000).

In management's opinion, the sensitivity analysis for change in fair value of convertible bonds is unrepresentative because of the interdependences on certain input variables of the valuation model.

Credit risk

As at 31st March 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk in relation to loan receivable 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 receivable are closely monitored on a ongoing basis by the management. At 31st March 2008, the Group has no significant concentrations of credit risk on loan receivable and debtors.

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 on debtors with exposure spread over a number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.3.2008 HK$'000
2008							
Financial liabilities							
Trade and other payables	N/A	72,022	–	–	–	72,022	72,022
Bank loans – fixed rate	5.96%	16,400	369	10,899	–	27,668	26,950
Convertible bonds		–	–	–	85,800	85,800	84,653
		88,422	369	10,899	85,800	185,490	183,625

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.3.2008 HK$'000
2007							
Financial liabilities							
Trade and other payables	N/A	56,349	–	–	–	56,349	56,349
Bank loans – fixed rate	5.84%	60	120	12,795	–	12,975	12,373
Convertible bonds		–	–	137,756	408,796	546,552	543,765
		56,409	120	150,551	408,796	615,876	612,487

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

– the fair value of convertible bonds is determined based on discounted cash flow analysis using the applicable yield-curve for the duration of the instruments for non-optional portion and option pricing model for optional portion.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new issues of share and convertible bonds as well as raising bank loans or other borrowings.

7. TURNOVER

	2008 **HK$'000**	2007 HK$'000
An analysis of the Group's turnover is as follows:		
Telecommunications/information value-added services	**224,821**	274,657
System integration and software development	**2,274**	10,489
Product identification, authentication, tracking system business	**6,279**	911
	233,374	286,057

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 ("PIATS"), and system integration and software development. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Telecommunications/information value-added services	–	provision of telecommunications/information value-added services
PIATS business	–	Operation of an exclusive platform for 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$'000	Total HK$'000
Year ended 31st March 2008				
Turnover				
External sales	224,821	6,279	2,274	233,374
Segment results	(21,620)	(26,468)	(2,535)	(50,623)
Other income				20,823
Change in fair value of convertible bonds				(11,395)
Share of profit of an associate				11,520
Finance costs				(1,359)
Unallocated corporate expenses				(45,366)
Loss before taxation				(76,400)
Taxation				(133)
Loss for the year				(76,533)
ASSETS				
Segment assets	118,008	163,271	54,562	335,841
Interest in an associate				105,345
Unallocated corporate assets				359,187
Consolidated total assets				800,373
LIABILITIES				
Segment liabilities	41,965	23,877	7,291	73,133
Unallocated corporate liabilities				119,723
Consolidated total liabilities				192,856

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Others HK$'000	Total HK$'000
OTHER INFORMATION					
Capital additions	**9,321**	**25,998**	**45**	**2**	**35,366**
Depreciation	**9,839**	**3,860**	**87**	**1,984**	**15,770**
Amortisation of intangible assets	**–**	**3,791**	**–**	**–**	**3,791**

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Total HK$'000
Year ended 31st March 2007				
Turnover				
External sales	274,657	911	10,489	286,057
Segment results	(2,339)	(28,071)	(5,529)	(35,939)
Other income				27,098
Change in fair value of convertible bonds				(19,807)
Share of profit of an associate				6,718
Finance costs				(721)
Unallocated corporate expenses				(39,561)
Loss before taxation				(62,212)
Taxation				(2,353)
Loss for the year				(64,565)
ASSETS				
Segment assets	120,787	121,015	86,841	328,643
Interest in an associate				93,276
Unallocated corporate assets				521,818
Consolidated total assets				943,737
LIABILITIES				
Segment liabilities	31,694	13,766	15,500	60,960
Unallocated corporate liabilities				563,870
Consolidated total liabilities				624,830

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Others HK$'000	Total HK$'000
OTHER INFORMATION					
Capital additions	6,168	31,809	–	25	38,002
Addition of intangible assets	–	72,925	–	–	72,925
Depreciation	7,538	1,642	153	1,995	11,328
Amortisation of intangible assets	–	912	–	–	912

The Group's operations and assets are primarily carried out and located in the PRC. Accordingly, a separate summary of geographical segment is therefore not presented.

9. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Included in other income are the following items:		
Interest income from bank deposits	**16,009**	20,725
Interest income from other deposit	**–**	2,024
Imputed interest income on loan receivable	**655**	642
Dividend from equity securities	**41**	–
Change in fair value of held for trading investments	**2,160**	3,236
Net exchange gain	**374**	–
Others	**1,584**	471
	20,823	27,098

10. FINANCE COSTS

	2008 **HK$'000**	2007 HK$'000
Interest on bank loans wholly repayable within five years	**1,359**	721

11. LOSS BEFORE TAXATION

	2008 **HK$'000**	2007 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 13)*	**1,860**	2,860
Other staff's retirement benefits scheme contributions	**1,552**	1,503
Other staff costs	**63,245**	60,539
Share option expense *(note 31)*	**3,751**	1,272
Total staff costs	**70,408**	66,174
Amortisation of intangible assets (included in cost of sales and services)	**3,791**	912
Auditor's remuneration	**2,594**	2,375
Cost of inventories recognised as an expense	**1,936**	7,210
Change in value of loan receivable resulting from extension of maturity *(note 19)*	**1,921**	–
Depreciation	**15,770**	11,328
Loss on disposal of property, plant and equipment	**3,020**	1,489
Net exchange loss	**–**	1,070
Operating lease rentals in respect of buildings	**12,992**	13,107
Share of tax of an associate (included in share of profit of an associate)	**534**	445

12. TAXATION

	2008 HK$'000	2007 HK$'000
Current tax:		
PRC Enterprise Income Tax – The Company and subsidiaries	**17**	–
PRC Enterprise Income Tax – Jointly controlled entities	**32**	3,172
	49	3,172
Under(over)provision in prior years:		
Hong Kong	**33**	–
PRC Enterprise Income Tax	**51**	(819)
	84	(819)
	133	2,353

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

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

On 16 March 2007, Mainland China promulgated the Law of Mainland China on Enterprise Income Tax (the "New Law") by Order No. 63 of Mainland China. On 6 December 2007, the State Council of Mainland China issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the existing tax rates from 15% to 25% progressively over 5 years for certain subsidiaries and jointly controlled entities from 1 January 2008 and 33% to 25% for certain subsidiaries and jointly controlled entities from 1 January 2008 respectively. The enactment of the New Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable.

Certain of the Group's subsidiaries and jointly controlled entities that are currently entitled to exemption and reduction from enterprise income tax rate of Mainland China would continue to enjoy such tax benefits until the exemption and reduction period expire, but not beyond 2012.

12. TAXATION *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Loss before taxation	(76,400)	(62,212)
Tax at the rate of 33% (2007: 33%)	(25,212)	(20,530)
Tax effect of income that is not taxable for the tax purposes	(2,860)	(7,295)
Tax effect of share of profit of an associate	(3,802)	(2,217)
Tax effect of expenses that are not deductible for tax purposes	26,291	30,981
Tax effect of tax losses not recognised	248	–
Utilisation of tax losses previously not recognised	(74)	(247)
Effect of different tax rates of subsidiaries operating in Hong Kong, which incurred tax losses during the year	5,596	4,678
Income tax at concessionary rate	–	(2,058)
Under(over)provision in prior years	84	(819)
Others	(138)	(140)
Taxation attributable to the Company and its subsidiaries for the year	133	2,353

At the balance sheet date, the Group has unused tax losses of approximately HK$76,163,000 (2007: HK$75,166,000) 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.

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2007: 9) directors were as follows:

	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$'000	Ms. Xia Guilan HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	2008 Total HK$'000
Fees	–	–	–	–	–	–	360	–	200	560
Other emoluments										
– salaries and other benefits	–	1,288	–	–	–	–	–	–	–	1,288
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	–	–	12
Total emoluments	–	1,300	–	–	–	–	360	–	200	1,860
Share option expense	–	–	–	–	–	–	–	–	–	–

	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$'000	Ms. Xia Guilan HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	2007 Total HK$'000
Fees	1,000	–	–	–	–	–	360	–	200	1,560
Other emoluments										
– salaries and other benefits	–	1,288	–	–	–	–	–	–	–	1,288
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	–	–	12
Total emoluments	1,000	1,300	–	–	–	–	360	–	200	2,860
Share option expense	–	–	–	–	–	–	–	–	–	–

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 (2007: Nil).

14. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2007: two) director(s) of the Company, whose emoluments are included in note 13 above. The aggregate emoluments of the remaining four (2007: three) highest paid individuals are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and allowances	**3,974**	3,614
Share option expense	**3,069**	–
Retirement benefits scheme contributions	**24**	24
	7,067	3,638

The emoluments of the individuals fall within the following band:

	Number of individuals	
	2008	2007
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	4	3

15. LOSS PER SHARE

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

	2008 HK$'000	2007 HK$'000
Loss for the purposes of basic loss per share	**(75,860)**	(60,998)

Number of shares

	2008	2007
Weighted average number of ordinary shares for the purposes of basic loss per share	**3,606,917,861**	3,310,874,619

The diluted loss per share for the year ended 31st March 2008 and 31st March 2007 was not presented as the exercise of the share options and warrants outstanding and the conversion of the Company's outstanding convertible bonds would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements, furniture and equipment HK$'000	Computer and special computer equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1st April 2006	1,260	14,226	78,753	7,943	22,006	124,188
Currency realignment	79	354	4,654	225	1,449	6,761
Additions	488	878	25,374	–	11,262	38,002
Disposals	–	–	(2,661)	–	–	(2,661)
Transfers	–	–	13,952	–	(13,952)	–
At 31st March 2007	1,827	15,458	120,072	8,168	20,765	166,290
Currency realignment	164	676	10,596	499	1,851	13,786
Additions	–	720	19,023	78	15,545	35,366
Disposals	–	(3,946)	(2,661)	(189)	–	(6,796)
Transfers	–	–	398	–	(398)	–
At 31st March 2008	**1,991**	**12,908**	**147,428**	**8,556**	**37,763**	**208,646**
DEPRECIATION						
At 1st April 2006	279	4,929	43,822	5,460	–	54,490
Currency realignment	26	194	2,488	245	–	2,953
Provided for the year	434	2,641	7,528	725	–	11,328
Eliminated on disposals	–	–	(1,172)	–	–	(1,172)
At 31st March 2007	739	7,764	52,666	6,430	–	67,599
Currency realignment	70	456	5,328	464	–	6,318
Provided for the year	67	2,641	12,354	708	–	15,770
Eliminated on disposals	–	(2,059)	(1,527)	(190)	–	(3,776)
At 31st March 2008	**876**	**8,802**	**68,821**	**7,412**	**–**	**85,911**
CARRYING VALUES						
At 31st March 2008	**1,115**	**4,106**	**78,607**	**1,144**	**37,763**	**122,735**
At 31st March 2007	1,088	7,694	67,406	1,738	20,765	98,691

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:

Leasehold land and buildings	50 years or over the unexpired period of leases, whichever is shorter
Leasehold improvements	5 years or over the unexpired period of leases, whichever is shorter
Furniture and equipment	5 to 20 years
Computer and special computer equipment	2 to 10 years
Motor vehicles	5 to 10 years

17. INTANGIBLE ASSETS

	License rights HK$'000
COST	
Acquired during the year	72,925
At 1st April 2007	72,925
Currency realignment	6,498
At 31st March 2008	**79,423**
AMORTISATION	
Provided during the year	912
At 1st April 2007	912
Currency realignment	261
Provided during the year	3,791
At 31st March 2008	**4,964**
CARRYING VALUES	
At 31st March 2008	**74,459**
At 31st March 2007	72,013

The Group's license rights were acquired from third parties. Such licenses are amortised over an estimated useful life of 20 years on a straight line basis.

License rights represented the amounts paid for obtaining the unlimited deployment right of Oracle database management software and middleware for use in PIATS business.

18. INTEREST IN AN ASSOCIATE

	2008 HK$'000	2007 HK$'000
Cost of investment in unlisted shares	**57,345**	57,345
Contribution from a shareholder	**19,215**	19,215
Share of post-acquisition profit	**27,963**	16,443
Currency realignment	**822**	273
	105,345	93,276

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

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

	2008 HK$'000	2007 HK$'000
Total assets	**497,562**	424,409
Total liabilities	**(146,412)**	(113,489)
Net assets	**351,150**	310,920
Group's share of net assets of the associate	**105,345**	93,276
Turnover	**112,529**	114,890
Profit for the year	**38,400**	22,394
Group's share of profit of associate for the year	**11,520**	6,718

19. 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.

During the year, the maturity date of the loan was extended to 23rd March 2011 with other terms and conditions remain unchanged. The value of the loan receivable was reduced by HK$1,921,000 (2007: Nil) to reflect the change in terms and the amount was charged to the consolidated income statement. The loan was then reclassified to non-current assets.

As at 31st March 2008, the carrying amount of the Group's share of the loan receivable was HK$25,039,000 (2007: HK$26,306,000) with effective interest rate of 2.5%.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2008 **HK$'000**	2007 HK$'000
Unlisted equity securities	**–**	5
Unlisted club debenture	**8,250**	7,168
	8,250	7,173

The above available-for-sale investments are stated at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

21. INVENTORIES

	2008 **HK$'000**	2007 HK$'000
General merchandise goods	**1,437**	1,110

22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2008 HK$'000	2007 HK$'000
Cost incurred plus recognised profits less recognised losses	**52,131**	73,887
Less: Progress billings	**(33,469)**	(55,913)
	18,662	17,974

23. DEBTORS AND PREPAYMENTS

	2008 HK$'000	2007 HK$'000
Trade receivables	**52,295**	86,318
Other receivables *(Note)*	**24,429**	22,647
Deposits and prepayments	**61,477**	48,328
	138,201	157,293

Note: Other receivables included an interest free advance to Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("Information Centre of AQSIQ") of the PRC, in order for Information Centre of AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK$19,800,000) (2007: HK$18,180,000). Information Centre of AQSIQ is the joint venture partner in CCIT. The amount is expected to recover on demand.

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:

	2008 HK$'000	2007 HK$'000
0 – 90 days	**29,642**	37,066
91 – 180 days	**3,421**	25,932
181 – 360 days	**2,841**	6,891
Over 360 days	**16,391**	16,429
	52,295	86,318

Before accepting any customer, the Group will internally assess the potential customer's credit quality and defines credit limits by customer. Since most of the debtors are stated-owned enterprise, so no material liquidity problem.

23. DEBTORS AND PREPAYMENTS *(Continued)*

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$22,653,000 (2007: HK$49,252,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2008 **HK$'000**	2007 HK$'000
91 – 180 days	**3,421**	25,932
181 – 360 days	**2,841**	6,891
Over 360 days	**16,391**	16,429
	22,653	49,252

The Group has not provided fully for all receivables over 90 days based on the historical experience of the Group that receivables are past due but not impaired are generally recoverable.

Movement in the allowance for doubtful debts

	2008 **HK$'000**	2007 HK$'000
Balance at beginning of the year	**14,314**	11,712
Currency realignment	**1,681**	–
Increase in allowance recognised in profit or loss	**4,172**	2,602
Balance at end of the year	**20,167**	14,314

24. INVESTMENTS HELD FOR TRADING

	2008 **HK$'000**	2007 HK$'000
Equity securities listed in Hong Kong and the United States	**17,923**	15,395

The fair value of the above held for trading investments was determined based on the quoted market bid price of the listed securities available on the relevant exchanges.

25. BANK BALANCES AND CASH

Bank balances comprise short-term bank deposits with an original maturity less than three months at interest rates ranged from 1.31% to 5.42% (2007: 3% to 5.26%) during the year.

Included in the bank balances are Renminbi short-term bank deposits of HK$82,790,000 (2007: HK$62,402,000) kept in banks registered in the PRC, and the Renminbi is not a freely convertible currency.

In addition, included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective group entities to which they relate:

	2008 HK$'000 equivalent	2007 HK$'000 equivalent
United States Dollars	**188,132**	349,208

26. CREDITORS AND ACCRUALS

	2008 HK$'000	2007 HK$'000
Trade payables	**39,154**	45,402
Other payables and accruals	**41,958**	23,290
	81,112	68,692

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

	2008 HK$'000	2007 HK$'000
0 – 90 days	**5,624**	26,274
91 – 180 days	**18,194**	5,563
181 – 360 days	**1,270**	4,702
Over 360 days	**14,066**	8,863
	39,154	45,402

27. SHORT-TERM BANK LOANS

During the year ended 31st March 2008, Beijing Honglian 95 Information Industries Company Limited ("HL95"), a jointly controlled entity of the Group obtained bank loan of RMB30,000,000 and RMB20,000,000 (equivalent to HK$33,000,000 and HK$22,000,000) secured by corporate guarantee from another joint venture partner. The loan carries fixed interest rate at 5.94% and 5.98% per annum and due for payment on April 2008 and July 2008 respectively. As at 31st March 2008, the Group share 49% of HL95 of the amount of short-term bank loans of HK$26,950,000 (2007: HK$12,373,000) stated in the consolidated balance sheet.

28. CONVERTIBLE BONDS

	HK$'000
As at 1st April 2006	547,420
Change in fair value during the year	19,807
Converted during the year	(23,462)
As at 31st March 2007	543,765
Change in fair value during the year	11,395
Converted during the year	(332,751)
Repayment during the year	(137,756)
As at 31st March 2008	**84,653**

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 multiplied 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 multiplied 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 term of the Bonds as stated in the Company's circular dated 23rd December 2005.

In previous year, US$3,000,000 of the issued Bonds were converted into 28,351,570 shares of HK$0.01 each of the Company at a price ranged from HK$0.78 to HK$0.93 per share.

During the year, US$41,000,000 of the issued Bonds were converted into 380,889,639 shares of HK$0.01 each of the Company at a price range from HK$0.71 to HK$0.95 per share.

Pursuant to the Bonds agreement, on each of the second, third and fourth anniversary after the issue date, the holder of Bonds will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder at 110.381 per cent, 115.969 per cent and 121.840 per cent respectively of their principal amount. During the year, issued bonds of USD16,000,000 were redeemed on 21st November 2007 at a premium of 110.381 per cent by the holders.

28. CONVERTIBLE BONDS *(Continued)*

The functional currency of the Company is RMB and the conversion option of these Bonds is denominated in U.S. dollars. Since the conversion price for the Bonds is subject to change due to both change in stock price and currency, the conversion will not result in settlement by the exchange of a fixed amount for 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 consolidated income statement. During the year, a loss on change in its fair value of HK$11,395,000 (2007: HK$19,807,000) is recognised in the consolidated income statement.

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

	31st March 2008	On conversion	31st March 2007
Stock price	**HK$0.52**	HK$0.95- HK$1.00	HK$0.90
Expected volatility	**45%**	45%	45%
Stock borrow cost	**5%**	5%	5%
Issuer's credit spread	**10%**	10%	10%
Expected dividend yield	**0%**	0%	0%

29. SHARE CAPITAL

	Number of ordinary shares	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1st April 2006, 31st March 2007 and 31st March 2008	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April 2006	3,308,628,417	33,086
– exercise of share warrants	5	–
– conversion of convertible bonds	28,351,570	284
– at 31st March 2007	3,336,979,992	33,370
– conversion of convertible bonds	380,889,639	3,809
– at 31st March 2008	3,717,869,631	37,179

29. SHARE CAPITAL *(Continued)*

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.

5 warrants were exercised and the remaining balances of warrants were lapsed during the year ended 31st March 2007. At the balance sheet dates, the Company had no warrants outstanding.

During the year ended 31st March 2007 and 2008, the following changes in the share capital of the Company took place:

(a) During the year ended 31st March 2007, 5 shares of HK$0.01 each were issued at HK$2.40 per share as a result of the exercise of warrants of the Company by warrant holders;

(b) During the year ended 31st March 2007, US$3,000,000 of the issued Bonds were converted into 28,351,570 shares of HK$0.01 each of the Company at a price ranged from HK$0.78 to HK$0.93 per share;

(c) During the year ended 31st March 2008, US$41,000,000 of the issued Bonds were converted into 380,889,639 shares of HK$0.01 each of the Company at a price ranged from HK$0.71 to HK$0.95 per share.

30. RESERVES

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.

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 2008 and 2007.

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.

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 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:

Date of grant	**Exercisable period**	**Exercise price** HK$	**Outstanding at 1.4.2006**	**Exercised during the year ended 31.3.2007**	**Outstanding at 31.3.2007 and 31.3.2008**
Directors of the Company, including ex-Director:					
13.7.2000	13.1.2001 – 27.5.2008	0.9900	21,000,000	–	21,000,000
13.7.2000	13.7.2001 – 27.5.2008	0.9900	21,000,000	–	21,000,000
13.7.2000	13.7.2002 – 27.5.2008	0.9900	28,000,000	–	28,000,000
24.6.2003	10.9.2004 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	10.3.2005 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	10.9.2005 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	24.6.2004 – 23.6.2013	0.3220	11,666,666	–	11,666,666
24.6.2003	24.12.2004 – 23.6.2013	0.3220	11,666,666	–	11,666,666
24.6.2003	24.6.2005 – 23.6.2013	0.3220	11,666,668	–	11,666,668
23.3.2005	23.3.2006 – 23.3.2015	3.1750	10,000,000	–	10,000,000
23.3.2005	23.3.2007 – 23.3.2015	3.1750	10,000,000	–	10,000,000
23.3.2005	23.3.2008 – 23.3.2015	3.1750	10,000,000	–	10,000,000
			225,000,000	–	225,000,000
Exercisable at the end of the year					225,000,000
Weighted average exercise price			HK$0.9102	–	HK$0.9102

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

31. SHARE OPTION *(Continued)*

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.4.2006	Lapsed during the year ended 31.3.2007	Cancelled during the year ended 31.3.2007	Outstanding at 31.3.2007	Granted during the year ended 31.3.2008	Lapsed during the year ended 31.3.2008	Cancelled during the year ended 31.3.2008	Outstanding at 31.3.2008
Employees:										
13.7.2000	13.7.2002 – 27.5.2008	0.9900	200,000	–	–	200,000	–	–	–	200,000
22.9.2004	22.9.2006 – 22.10.2006	1.2300	1,800,000	(1,800,000)	–	–	–	–	–	–
22.9.2004	22.9.2007 – 22.10.2007	1.2300	1,800,000	–	(1,200,000)	600,000	–	(600,000)	–	–
1.2.2005	5.1.2006 – 31.1.2015	2.2550	1,000,000	–	–	1,000,000	–	–	(1,000,000)	–
1.2.2005	5.1.2007 – 31.1.2015	2.2550	1,000,000	–	–	1,000,000	–	–	(1,000,000)	–
1.2.2005	5.1.2008 – 31.1.2015	2.2550	1,000,000	–	–	1,000,000	–	–	(1,000,000)	–
2.3.2005	2.9.2005 – 1.3.2015	2.5250	700,000	–	(333,334)	366,666	–	–	–	366,666
2.3.2005	2.9.2006 – 1.3.2015	2.5250	700,000	–	(333,333)	366,667	–	–	–	366,667
2.3.2005	2.3.2008 – 1.3.2015	2.5250	700,000	–	(333,333)	366,667	–	–	–	366,667
23.3.2005	23.3.2006 – 22.3.2015	3.1750	200,000	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2007 – 22.3.2015	3.1750	200,000	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2008 – 22.3.2015	3.1750	200,000	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2009 – 22.3.2015	3.1750	200,000	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2010 – 22.3.2015	3.1750	200,000	–	–	200,000	–	–	–	200,000
1.6.2005	1.6.2006 – 30.6.2006	2.1750	2,933,333	(2,933,333)	–	–	–	–	–	–
1.6.2005	1.6.2007 – 30.6.2007	2.1750	2,933,333	–	(400,000)	2,533,333	–	(2,533,333)	–	–
1.6.2005	1.6.2008 – 30.6.2008	2.1750	2,933,334	–	(400,000)	2,533,334	–	–	–	2,533,334
1.6.2005	1.6.2009 – 30.6.2009	2.1750	600,000	–	(400,000)	200,000	–	–	–	200,000
1.6.2005	1.6.2010 – 30.6.2010	2.1750	600,000	–	(400,000)	200,000	–	–	–	200,000
4.6.2007	4.6.2008 – 3.6.2017	2.500	–	–	–	–	13,200,000	–	(900,000)	12,300,000
4.6.2007	4.6.2009 – 3.6.2017	2.500	–	–	–	–	8,800,000	–	(600,000)	8,200,000
4.6.2007	*Note (a)*	2.500	–	–	–	–	11,000,000	–	(750,000)	10,250,000
4.6.2007	*Note (b)*	2.500	–	–	–	–	11,000,000	–	(750,000)	10,250,000
			19,900,000	(4,733,333)	(3,800,000)	11,366,667	44,000,000	(3,133,333)	(6,000,000)	46,233,334
Total			244,900,000	(4,733,333)	(3,800,000)	236,366,667	44,000,000	(3,133,333)	(6,000,000)	271,233,334
Exercisable at the end of the year										1,900,000
Weighted average exercise price			HK$2.0914	HK$1.8156	HK$1.9687	HK$2.2472	HK$2.5000	HK$1.9940	HK$2.3775	HK$2.4480

Note:

(a) These options are exercisable upon a trigger event of the Company's share price quoted on the Stock Exchange equal to HK$8 or above until 3.6.2017.

(b) These options are exercisable upon a trigger event of the Company's share price quoted on the Stock Exchange equal to HK$12 or above until 3.6.2017.

31. SHARE OPTION *(Continued)*

No share options has been exercised during the year ended 31st March 2008 and 31st March 2007.

During the year ended 31st March 2008, a total number of 44,000,000 share options (the "Share Options") were granted on 4th June 2007. The estimated fair value of the share options granted on that date is HK$0.1894 (Tranche 1), HK$0.0640 (Tranche 2) and HK$0.0362 (Tranche 3).

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 ended 31st March 2008. 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 4th June 2007 using the Model with the inputs are as follows:

	Tranche 1 **4th June 2007**	**Tranche 2** **4th June 2007** *Note (1)*	**Tranche 3** **4th June 2007** *Note (2)*
Share price	HK$1.43	HK$1.43	HK$1.43
Exercise price	HK$2.50	HK$2.50	HK$2.50
Expected volatility	40%	40%	40%
Risk-free rate	4.70%	4.70%	4.70%
Expected dividend yield	0%	0%	0%
Exit rate	40%	40%	40%
Exercise multiple	1.3	N/A	N/A

Notes:

(1) Inputs for options which exercisable upon a trigger event of the Company's share price equal to HK$8 or above quoted in the Stock Exchange.

(2) Inputs for options which exercisable upon a trigger event of the Company's share price equal to HK$12 or above quoted in the Stock Exchange.

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$3,751,000 for the year ended 31st March 2008 (2007: HK$1,272,000) in relation to share options granted by the Company.

32. JOINT VENTURES

The Group has the following significant interests in joint ventures:

Name of entity	Place of registration/ operations	Nominal value of registered capital	Effective percentage of interest held by the Group	Principal activities
HL 95 ("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
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:

	2008 HK$'000	2007 HK$'000
Current assets	**106,969**	103,261
Non-current assets	**75,827**	60,330
Current liabilities	**76,602**	46,415

	2008 HK$'000	2007 HK$'000
Income	**230,038**	275,568
Expenses	**264,274**	296,519
Taxation	**32**	3,172

33. OPERATING LEASE COMMITMENTS

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

	2008 HK$'000	2007 HK$'000
Within one year	**7,994**	10,399
In the second to fifth years inclusive	**7,982**	3,282
	15,976	13,681

Leases are negotiated for a term of one to five years.

34. CAPITAL COMMITMENTS

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**3,003**	2,008

35. 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.

36. RELATED PARTY TRANSACTIONS

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:

	2008 **HK$'000**	2007 HK$'000
Telecommunications/information value-added services agency fee *(note a)*	**4,721**	5,206

(a) 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 the 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.

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:

	2008 **HK$'000**	2007 HK$'000
Telecommunications/information value-added services agency fee *(note b)*	**36,383**	37,459

(b) The Group pays agency fee to China Mobile Communication Corporation, China United Telecommunications Corporation and China Network Communication Group Corporation 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.

37. LITIGATION

During the financial year ended 31st March 2007, the Company received a claim from a former employee in the Hong Kong Labour Tribunal which in turn transferred to the Hong Kong High Court 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 and that the Company has a reasonable prospect of a successful defense. Accordingly, no provision in connection with the legal claim has been made in the consolidated financial statements. Such litigation is still in progress up to the date of this report.

38. 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 2008 and 2007 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	
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. 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.

Financial Summary

	Year ended 31st March				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**233,374**	286,057	403,545	249,058	163,947
(Loss) profit before taxation	**(76,400)**	(62,212)	19,387	6,315	(5,349)
Taxation	**(133)**	(2,353)	(13,100)	(5,231)	(1,371)
(Loss) profit for the year	**(76,533)**	(64,565)	6,287	1,084	(6,720)
Attributable to:					
Equity holders of the Company	**(75,860)**	(60,998)	9,153	(1,755)	(6,006)
Minority interests	**(673)**	(3,567)	(2,866)	2,839	(714)
	(76,533)	(64,565)	6,287	1,084	(6,720)

	As at 31st March				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**800,373**	943,737	1,007,208	449,146	392,932
Total liabilities	**(192,856)**	(624,830)	(665,770)	(133,065)	(168,477)
	607,517	318,907	341,438	316,081	224,455
Equity attributable to equity holders of the Company	**607,506**	318,240	337,765	308,787	218,083
Minority interests	**11**	667	3,673	7,294	6,372
	607,517	318,907	341,438	316,081	224,455