CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 241

Annual Report
2010

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

Dr. HUI Ho Ming, Herbert, JP
Mr. ZHANG Jian Ming
Dr. LONG Junsheng

COMPANY SECRETARY

Mr. YEE Foo Hei, ACS, ACIS, FCCA

QUALIFIED ACCOUNTANT

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

Yung, Yu, Yuen & Co.

Bermuda

Appleby

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 Bank International Limited
The Hongkong and Shanghai Banking Corporation Limited

CHAIRMAN'S STATEMENT

In 2009, China's economy has achieved significant growth with the implementation of stimulus policies promulgated by the PRC government and such measures have not only speeded up the pace of the transformation of the structure of China's economy but also offered great opportunities for the Company's business development. Leveraging on such opportunities, the management team and the staff of our Group have taken the initiatives in extending the business scope with concerted effort.

The promotion of the Product Identification, Authentication, Tracking System ("PIATS") has been well recognized and supported by relevant governmental departments. The e-surveillance of all types of drugs in the Basic Medicine Catalogue has been listed as a focus in the Medical Reform 2010, and this implies that PIATS dedicatedly developed by the Company will play a more important role in China's Medical System Reform. Such a development will further improve the medical market environment of China and consolidate the Group's leading position in the medical information service sector. The management team and the staff of the Group will make the best effort to work closely with all the government authorities at different levels to achieve such target, and to establish and strengthen the present optimum customer relationship with medical enterprises through the tracking system services in order to build up a solid foundation for extending the scope of application of informatization services.

Honglian 95, a jointly controlled entity of the Group, has consolidated its position in the mobile and telecommunication value-added services industry. Over the last year, the Company actively extended its business targeting at call centres and 3G value-added services, which is expected to generate stable revenue in the future.

Despite the impact of the financial crisis to the export of China last year, the business of Dongfang Customs under the Group's investment still provided us with good return.

The business development of PIATS, Honglian 95 and Dongfang Customs were all in line with the target of establishing an integrated information service platform with leading position. We will step up our effort in studying and understanding the needs of the society in various aspects, further enhancing the quality of our management and services and attaining the greatest economic and social efficiency, in order to make contribution to the information technology of the society.

The entire staff of the Group will strive to generate sustainable returns for our shareholders with our long-term vision, advanced technology and highly efficient business operations. I would like to take this opportunity to express my deepest gratitude to our shareholders, business partners, investment institutions, the government authorities and our staff for their unswerving support.

Wang Jun
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The key financial figures of the Group for the year ended 31st March 2010 and the comparative figures for the year ended 31st March 2009 are summarized as follows:

	2010 HK$'000	2009 HK$'000	Change %
Turnover	**287,560**	274,645	4.7
Gross profit	**37,820**	13,297	184.4
Gross profit percentage	**13.2%**	4.8%	N/A
Other gains and losses	**15,060**	2,063	630.0
Administrative expenses	**86,793**	146,222	(40.6)
Change in fair value of convertible bonds	**–**	5,802	N/A
Impairment losses recognised in respect of PIATS business	**–**	20,736	N/A
Share of profit of an associate	**11,600**	13,148	(11.8)
Net loss attributable to shareholders	**51,516**	148,007	(65.2)
Loss per share			
Basic and diluted	**1.39 cents**	3.98 cents	(65.1)

FINANCIAL REVIEW *(Continued)*

Results

– ***Turnover***

Turnover of the Group for the year increased by 4.7% from HK$274,645,000 to HK$287,560,000. The increase 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 2010 increased by 7.7% to HK$279,447,000 from HK$259,371,000 for the year ended 31st March 2009. The Group's share of the turnover of HL95 comprised HK$116,573,000 (2009: HK$110,312,000) from short messaging services ("SMS"), HK$25,550,000 (2009: HK$29,536,000) from fixed-line interactive voice response system ("IVRS"), HK$59,586,000 (2009: HK$35,385,000) from mobile IVRS, HK$15,793,000 (2009: HK$22,085,000) from Internet-protocol ("IP") phone, HK$51,320,000 (2009: HK$36,846,000) from call centres, and HK$10,625,000 (2009: HK$25,207,000) from other value-added services. The increase in turnover was mainly due to the increase in SMS revenue, mobile IVRS revenue and call centre revenue, despite the decrease in revenues from the fixed-line IVRS and IP phone businesses. The introduction of several new and innovative services, including the promotion for the consumers' enquiry on the product information through PIATS, had stimulated the SMS revenue to rise by 5.7% or HK$6,261,000. Increase in mobile IVRS revenue by 68.4% or HK$24,201,000 was due to more cooperation with media, mainly TV and radio stations, to provide IVRS related services across China. Increase in call centre revenue by 39.3% or HK$14,474,000 was mainly due to the continuous growth of the call centre business in Beijing, Shenzhen and Foshan to cope with the development of certain major call centre accounts, including China Mobile Guangdong and CITIC Bank. HL95 has successfully reinforced the long-term relationship with those key accounts and HL95 has become one of the main reputable operators in the call centre industry in China. Fixed-line IVRS revenue decreased by 13.5% or HK$3,986,000 due to the aggressive marketing tactics and keen competition from HL95's main fixed-line IVRS competitors, China Telecom and China Unicom. The fixed-line IVRS business was also affected by the change in consumer habits to use less fixed line as main communication tool at home. Due to the keen competition from other IP phone providers, IP phone revenue decreased by 28.5% or HK$6,292,000 during the current year. Decrease in other value-added service revenue was mainly due to the decrease in revenue generated from the sales of calling cards for telecom operators.

(b) 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited or "CCIT") (a 50%-owned jointly controlled entity of the Group) and 中信21世紀(中國)科技有限公司 (CITIC 21CN (China) Technology Company Limited or "CITIC 21CN Technology") (a wholly-owned subsidiary of the Group), are engaged in PIATS business. The Group's share of the turnover of PIATS business for the year ended 31st March 2010 decreased by 39.6% to HK$8,035,000 from HK$13,306,000 for the year ended 31st March 2009. The decrease in revenue was due to the consolidation of PIATS existing business and the reduction of the annual service subscription fee income during the year.

(c) 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 2010 was HK$78,000 as compared with the turnover of HK$1,968,000 for the year ended 31st March 2009. The operations of Grand Cycle have been scaling down and the turnover for the year represented those revenue generated from the outstanding system integration service contracts to the telecom industry.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

- ***Gross profit percentage***

  The gross profit percentage of the Group during the year ended 31st March 2010 increased to 13.2% from 4.8% during the year ended 31st March 2009, mainly because HL95 was able to maintain its normal business gross profit margin, and there was substantial reduction in gross losses of both PIATS and Grand Cycle businesses.

  By leveraging on its partnership with various new content providers and media, and the continuing development of its call centre business, HL95 was able to maintain its normal business gross profit margin despite of the fierce market competition.

  In the current year, CCIT and CITIC 21CN Technology continued to build the infrastructure for PIATS. With the implementation of stringent direct operating cost and platform supporting cost control measures by the management, the gross loss of PIATS business was significantly reduced when compared with the previous year.

  After 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, and the absence of non-recurring write-down of inventories and the recognised losses of uncompleted or terminated contracts unlike in the previous year, both turnover and gross loss of Grand Cycle were substantially reduced during this year.

- ***Other gains and losses***

  Other gains and losses increased by 630.0% to HK$15,060,000 for the year ended 31st March 2010 when compared with the last corresponding year. Such sharp increase was mainly attributable to the gain on change in fair value of investments held for trading of HK$12,794,000 as contrasted with the loss of HK$5,273,000 for the year ended 31st March 2009, as a result of the gradual recovery of the investment market during the year after the financial crisis in late 2008. Interest income was decreased by 85.8% to HK$962,000 when compared with HK$6,793,000 for the year ended 31st March 2009, as a result of reduction in bank deposit amount and bank interest rate during the year.

- ***Administrative expenses***

  Administrative expenses for the year ended 31st March 2010 was HK$86,793,000 when compared to HK$146,222,000 for the previous year. Such decrease was principally due to the decrease in staff costs included in administrative expenses after the staff restructuring of HL95 and PIATS businesses, and that of the staff cost re-arranging of HL95 on its call centre business during the year. Moreover, the whole Group had implemented stringent administrative cost control measures to improve efficiency.

- ***Share of profit of an associate***

  Share of profit of an associate represented 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"), which was engaged in electronic customs processing and other electronic government services. The share of profit of Dongfong Customs was HK$11,600,000 for the year ended 31st March 2010, a decrease of 11.8% as compared with HK$13,148,000 for the year ended 31st March 2009. Dongfang Customs has been upgrading its existing system by introducing more new and enhanced features to attract users using their services.

FINANCIAL REVIEW *(Continued)*

Results *(Continued)*

– ***Net loss attributable to shareholders***

Net loss attributable to shareholders for the year ended 31st March 2010 was HK$51,516,000, representing a decrease of 65.2% over HK$148,007,000 for the previous year, mainly because of increases in both gross profit margin and other gains and losses; and there were substantial reduction of administrative expenses and absence of impairment losses recognised in respect of PIATS business unlike in last year, as partly offset by other interest expense provision of HK$26,815,000 under the arbitration ruling in Oracle case.

– ***Loss per share***

Basic and diluted loss per share was HK1.39 cents for the year ended 31st March 2010, representing a decrease of 65.1% over HK3.98 cents for the previous year.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 31st March 2010 and the corresponding comparative figures as at 31st March 2009 are summarized as follows:

	31st March 2010 HK$'000	31st March 2009 HK$'000
Current assets	**296,899**	273,250
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	**188,834**	196,421
– debtors	**53,921**	45,216
Current liabilities	**146,608**	130,346
Including		
– short-term bank loans	**11,074**	24,917
Current ratio (current asset/current liabilities)	**2.03**	2.10
Quick ratio (bank balances and cash & debtors/current liabilities)	**1.66**	1.85
Shareholders' equity	**420,442**	472,048
Gearing ratio (bank loans/shareholders' equity)	**2.63%**	5.28%

Bank balances and cash decreased slightly by 3.9% from HK$196,421,000 as at 31st March 2009 to HK$188,834,000 as at 31st March 2010. The slight decrease in bank balances and cash was the net result of various factors principally due to increase in investments held for trading, repayment of certain bank loans, increase in loan to CCIT and increase in trade debtors in HL95's normal business activity. These were mostly balanced by dividend received from Dongfang Customs during the year ended 31st March 2010.

As at 31st March 2010, trade debtors aged over 12 months were HK$8,295,000 (31st March 2009: HK$9,923,000), which were mainly related to system integration and software development business.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES *(Continued)*

Bank loans on the consolidated statement of financial positions as at 31st March 2010 and 31st March 2009 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 2010, the Group reported relatively steady current and quick ratios. The current ratio was 2.03 (31st March 2009: 2.10) and the quick ratio was 1.66 (31st March 2009: 1.85).

Shareholders' equity decreased from HK$472,048,000 as at 31st March 2009 to HK$420,442,000 as at 31st March 2010, mainly because of the net loss of the Group incurred during the year ended 31st March 2010.

The Group's gearing ratio decreased from 5.28% as at 31st March 2009 to 2.63% as at 31st March 2010, because of the repayment of certain bank loans and the reduction in shareholder's equity resulting from the net loss of the Group incurred during the year ended 31st March 2010.

The Group's operations and transactions are principally located in the PRC. Other than 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.

- **PIATS Business**

  CCIT and CITIC 21CN Technology, a jointly-controlled entity and a subsidiary of the Group respectively, are principally engaged in the provision of product tracking, recall and enforcement information services to relevant authorities in the PRC through the operation of PIATS; the provision of product tracking and logistics information services to manufacturers; and the provision of services to consumers for verifying product information and origins. With the support from the relevant authorities of the PRC since its launch, the application of PIATS has been broadly extended countrywide to various products such as food and beverage, agricultural resources, household appliances and drugs, through which staging achievement has been reached, enterprise product brand name and orderly market has been effectively maintained, and helping the market set up a product credit system that has been recognized by consumers, government and enterprises.

  As the relevant PRC authorities have not further issued supplemental work rules for PIATS implementation, some enterprises did encounter uncertainties in implementing PIATS project, therefore posing more severe challenge to the operation of PIATS during this result period. In response to such situation, the company endeavored to strengthen its internal cost control while actively exploring market-oriented models for promoting PIATS. In addition, the company spared no efforts in developing value-added applications so as to raise the acceptance and reliance of enterprises towards PIATS through deeply digging into their needs. Preliminary results are shown for these measures.

BUSINESS REVIEW *(Continued)*

- ### PIATS Business *(Continued)*

As to the area of drugs monitoring, the implementation of PIATS project for drug manufacturers and distributors throughout the country, which included over 1,000 items of the 4 major categories of controlled drugs of type II mental disorder drugs, blood products, vaccines and Chinese medicine injections, had basically been completed during this result period with expected results accomplished.

Future prospect

It is expected that breakthrough could be achieved in promoting PIATS in the segment of drugs monitoring. Recently, the relevant authorities in the PRC have issued a series of documents, which have expressly demanded the electronic monitoring of all types of basic drugs under the Basic Medicine Catalogue that would become one of the main focuses of the Medical Reform 2010. This implies that the requirement scope of electronic monitoring of drugs will rapidly expand from about 1,000 items of existing controlled drugs to several tens of thousands of basic drugs in the near future. The number of enterprises to be enrolled with PIATS will increase significantly. The management has confidence that PIATS can combat counterfeit and poor-quality drugs, improve drug safety, and protect the interests of consumers and enterprises. Given that there are no other companies that can provide service similar to PIATS at the moment, the directors believe that is great potential for PIATS.

- ### HL95

HL95 is a nationwide telecommunications/information value-added services ("VAS") company in the PRC and is licensed by the Ministry of Industries and Information 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 customer care call centres services.

Future prospect

The rapid development of 3G and mobile internet will continuously create immense business opportunities for HL95. With many years of good long-term relationship with telecom operators and content providers, HL95 will work closely with them so as to provide the latest 3G contents. The growth of call centre revenue is expected to continue with good industry reputation earned by HL95 in the call centre industry in the PRC. In late 2009, HL95 received certain industry awards for its good achievement in call centre management and outsourcing contact. HL95 is now expanding with its call centre customer basis. Moreover, HL95 is exploring with many new potential customers outside of its main call centre facilities in Beijing, Shenzhen and Foshan and is planning to expand its call centre related operations to other cities across China for new business opportunities. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CCIT and CITIC 21CN Technology, in providing the PIATS service, uses HL95's platform to enable consumers anywhere in the PRC to enquire product information by 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. Moreover, Dongfang Customs provides technical support and database management services to its users. Dongfang Customs' users principally included manufacturers and import/export corporations for customs declaration and clearance services, and banks for foreign exchange monitoring and online payments to be processed electronically under the same network platform.

BUSINESS REVIEW *(Continued)*

- ### Dongfang Customs *(Continued)*

  Future prospect

  The PRC government has been encouraging manufacturers and import/export corporations to perform the customs declaration processing electronically as it not only speeds up the customs declaration procedures but also helps minimising the handling costs involved in the declaration. Given that there is getting more and more enhanced features for the network platform of Dongfang Customs and China is the manufacturing base for the world, the directors believe that there is great potential for Dongfang Customs to increase its service revenue from those new and enhanced features, such as technical support and database management services to its established user base.

- ### 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 2010 are detailed as follows:

Location	Telecommunications/ information value-added services	PIATS business	System integration and software development	Corporate	Associate
– Hong Kong	–	–	–	11	–
– The PRC	1,665	48	5	–	270
Total	1,665	48	5	11	270

Total staff costs of the Group for the year ended 31st March 2010 were HK$83,235,000. 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 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 2010, no 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 2010.

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 operating segments is set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 26 of this annual report.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 28 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 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 72 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' REPORT

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 Lianyang
Ms. Xia Guilan

Independent Non-Executive Directors

Dr. Hui Ho Ming, Herbert, JP
Mr. Zhang Jian Ming
Dr. Long Junsheng (appointed on 2nd November 2009)
Mr. Chen Wuzhao (resigned on 2nd November 2009)

In accordance with Clauses 99 and 102 of the Bye-laws of the Company, Mr. Luo Ning, Mr. Zhang Lianyang, Ms. Xia Guilan and Dr. Long Junsheng will retire by rotation at the forthcoming annual general meeting (and, being eligible, offer themselves for re-election).

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 three 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 19 to 20 of this annual report.

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Other than the share options as set out in note 31 to the consolidated financial statements, the Company had no outstanding convertible securities, options or other similar rights as at 31st March 2010. Particulars of the movements of the share options or similar rights during the year are set out in the aforesaid note.

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 "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 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 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 Scheme during the year are set out below:

				Number of options					
	Date of grant	Exercise price HK$	Exercise period	At 1st April 2009	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	At 31st March 2010
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	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 Lianyang	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
				155,000,000	–	–	–	–	155,000,000
Employees	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
	4.6.2007	2.500	4.6.2008 to 3.6.2017	6,900,000	–	–	(600,000)	–	6,300,000
	4.6.2007	2.500	4.6.2009 to 3.6.2017	4,600,000	–	–	(400,000)	–	4,200,000
	4.6.2007	2.500	*Note (a)*	5,750,000	–	–	(500,000)	–	5,250,000
	4.6.2007	2.500	*Note (b)*	5,750,000	–	–	(500,000)	–	5,250,000
				25,100,000	–	–	(2,000,000)	–	23,100,000
				180,100,000	–	–	(2,000,000)	–	178,100,000

Notes:

(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.

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 end of the reporting period.

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 2010, 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)]	90,000,000	874,937,030
Mr. Luo Ning	–	10,000,000	10,000,000
Mr. Sun Yalei	–	10,000,000	10,000,000
Mr. Zhang Lianyang	–	15,000,000	15,000,000
	784,937,030	155,000,000	939,937,030

(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 2010, 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

中信21世紀(中國)科技有限公司 (CITIC 21CN (China) Technology Co. Ltd*) ("CITIC 21CN Technology") as the lender and 中信國檢信息技術有限公司 (China Credit Information Technology Co. Ltd*) ("CCIT") as the borrower entered into a loan agreement (the "Loan Agreement") on 21st July 2009 in relation to a non-interest bearing and unsecured loan of RMB20,000,000 (the "Loan") with particulars as follows:

(a) the Loan is provided to CCIT as the general working capital of CCIT;

(b) the term of the Loan is for 3 years commenced from 1st April 2009 and repayable on 31st March 2012;

(c) the Loan is non-interest bearing and unsecured;

(d) the Loan shall only be used as the general working capital of CCIT. If CCIT uses the Loan for any purposes other than as its general working capital, CITIC 21CN Technology has the right to request CCIT to repay the Loan immediately and CCIT has to pay a penalty which amounts to 30% of the Loan to CITIC 21CN Technology.

CCIT is owned as to 50%, 30% and 20% by the Company, CITIC Group and 中國電信集團公司 (China Telecommunications Corporation*) respectively, and CITIC Group is a substantial shareholder of the Company, holding 21.73% of the shareholdings of the Company. CCIT is a non wholly-owned subsidiary and a connected person of the Company under the Listing Rules. The Company obtained the approval of the independent shareholders in respect of the grant of the Loan, the Loan Agreement and all the transactions contemplated thereunder in accordance with the Bye-Laws and the Listing Rules during a special general meeting of the Company held on 31st August 2009 ("SGM").

CITIC 21CN Telecom Company Limited ("CITIC 21CN Telecom"), which is a wholly owned subsidiary of the Company provided a loan in the sum of US$6,900,000 ("CITIC 21CN Telecom Loan") to CCIT under the loan agreement and supplemental agreement dated 3rd March 2006. CITIC 21CN Telecom Loan was renewed for a term of 3 years under the renewal loan agreement ("Renewal Loan Agreement") between CITIC 21CN Telecom and CCIT dated 22nd May 2008 ("Renewal Loan").

Taking into account of the Renewal Loan Agreement and the Renewal Loan which was entered into within a 12-month period of the Loan Agreement, the Renewal Loan Agreement and the Loan Agreement are required to be aggregated pursuant to the Listing Rules. The aggregate loan amount, including the Loan and the Renewal Loan, is approximately RMB75,531,200.

In addition to the above, 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 received 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.

* *for identification purpose only*

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 6% of the total purchases of the Group, of which 2% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 59% of the total turnover of the Group, of which 25% 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.

ARBITRATION

Details of arbitration 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 21 to 24 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 2010 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 21 to 24 of this annual report.

AUDITOR

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

On behalf of the Board

Chen Xiao Ying
EXECUTIVE VICE CHAIRMAN

Hong Kong, 15th July 2010

THE BIOGRAPHICAL INFORMATION OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wang Jun, aged 69, 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 is currently, the Chairman and Executive Director of Goldbond Group Holdings Limited and the Independent Non-Executive Director of China Communications Services Corporation Limited, the share of which are listed on the Main Board of the Stock Exchange.

Ms. CHEN Xiao Ying, aged 47, is the Executive Vice Chairman of the Company. Ms. Chen is responsible for setting overall corporate strategies and their implementation for the Group. She has been Chairman of the Pollon Group, a private investment group, since its inception in 1989 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 51, is the Vice Chairman of the Company. He is currently a Director of CITIC Group, which is a substantial shareholder of the Company, and a Vice Chairman of CITIC Guoan Group and the Chairman of CITIC Networks Co., Ltd.. He is also a Director of CITIC Guoan Information Industry Company Limited, a public company listed on the Shenzhen Stock Exchange in the PRC. He is also an Executive Director of DVN (Holdings) Limited and a Non-Executive Director of Asia Satellite Telecommunications Holdings Limited and Sino-i Technology Limited, which are listed on the Main Board of the Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group. Mr. Luo has extensive experience in telecommunication business and holds a bachelor degree in Communication Speciality from The Wuhan People's Liberation Army Institute of Communication Command (武漢解放軍通信指揮學院). Mr. Luo has served as Director since September 2002.

Mr. SUN Yalei, aged 42, is an Assistant President of CITIC Group, Vice Chairman and President of CITIC Guoan Group. He is also serving as Vice Chairman of CITIC Guoan Information Industry Company Limited, a public company listed on the Shenzhen Stock Exchange in the PRC. 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 Lianyang, aged 65, 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 47, is currently the Vice Chairman of CITIC Guoan Group. She is also serving as Vice Chairman of CITIC Guoan Information Industry Company Limited, a public company listed on the Shenzhen Stock Exchange in the PRC. Ms. Xia has served as Director since August 2003.

THE BIOGRAPHICAL INFORMATION OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. HUI Ho Ming, Herbert, JP, aged 52, has over 20 years experience in merchant banking, securities regulation as well as extensive commercial and corporate finance experience. He is currently the Executive Director of Hong Kong Resources Holding Company Ltd; Vice Chairman of First Vanguard Private Equity Ltd; Independent Non-Executive Director of the Company and Dynasty Fine Wines Group Ltd (all are listed on the main board of the Hong Kong Stock Exchange). He is formerly the Deputy Chief Executive and Head of the Listing Division, the Hong Kong Stock Exchange Ltd (1992 to 1997). He is currently the Chairman of Finance and Administration Committee of the APAS Research and Development Centre and a Court Member of The Hong Kong University of Science and Technology. He was the Past Chairman of the Hong Kong Institute of Directors. He was appointed as a Justice of the Peace in 2004. Dr. Hui has served as Independent Non-Executive Director since November 2005.

Mr. ZHANG Jian Ming, aged 49, 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.

Dr. LONG Junsheng, aged 53, is currently an Associate Professor in management science and information with Guanghua School of Management, Beijing University, Deputy Director of Strategies Research Institute, Beijing University, Life Professor in computer science at University of North Carolina, USA. He is also serving as Vice Chairman of China Logistics Association, Chairman of the board, Ningbo High-Tech Venture Company and President of Beijing Tongying Shengshi Investment Company. He possesses in-depth knowledge and working experience in the aspects of software, information analysis, corporate finance and financial management. Dr. Long, holds a doctorate degree in computer engineering from University of Illinois at Urbana-Champaign, USA, a master degree in management of renewable resource from University of Arizona, USA, and a bachelor degree in geography from Beijing University. Dr. Long has served as Independent Non-Executive Director since November 2009.

COMPANY SECRETARY

Mr. YEE Foo Hei, aged 46, is an associate member of The Hong Kong Institute of Chartered 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

In the opinion of the Directors, throughout the year ended 31st March 2010, the Company has complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices (the "CG Code") under Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the following deviations:–

1. 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.

2. 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.

3. The Chairman of the board did not attend in the annual general meeting of the Company held on 31st August 2009. 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 19 to 20 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) between INEDs with 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 six regular Board meetings at approximately quarterly interval during the year ended 31st March 2010 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 2010 are set out in the table below:

	Attendants/Number of Meetings	
Directors	**Board**	**Audit Committee**
Executive Directors		
Mr. Wang Jun *(Chairman)*	4/6	–
Ms. Chen Xiao Ying *(Executive Vice Chairman)*	6/6	–
Mr. Luo Ning *(Vice Chairman)*	6/6	–
Mr. Sun Yalei	4/6	–
Mr. Zhang Lianyang	4/6	–
Ms. Xia Guilan	4/6	–
Independent Non-Executive Directors		
Dr. Hui Ho Ming, Herbert, JP	6/6	2/2
Mr. Zhang Jian Ming	6/6	2/2
Mr. Chen Wuzhao *(Note 1)*	3/4	1/1
Dr. Long Junsheng *(Note 2)*	3/3	1/1

Notes:

1. Mr. Chen Wuzhao resigned as Independent Non-Executive Director on 2nd November 2009.

2. Dr. Long Junsheng was appointed as Independent Non-Executive Director on 2nd November 2009.

Board Committees

The Board established two committees, namely, the Remuneration Committee and the Audit Committee, to oversee corresponding aspects of the Company's affairs.

Remuneration Committee

The Board has established a Remuneration Committee which comprises three Independent Non-Executive Directors. For the period from 1st April 2009 to 2nd November 2009, the Remuneration Committee comprises three Independent Non-Executive Directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Chen Wuzhao. On 2nd November 2009, Mr. Chen Wuzhao resigned as an Independent Non-Executive Director and thus Remuneration Committee Member. Dr. Long Junsheng was appointed as an Independent Non-Executive Director and thus Remuneration Committee Member to fill up the vacancies on the same date. It is chaired by Dr. Long Junsheng. The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code.

THE BOARD *(Continued)*

Remuneration Committee *(Continued)*

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 2010.

Audit Committee

For the period from 1st April 2009 to 2nd November 2009, the Audit Committee comprises three Independent Non-Executive Directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Chen Wuzhao. On 2nd November 2009, Mr. Chen Wuzhao resigned as an Independent Non-Executive Director and thus Audit Committee Member. Dr. Long Junsheng was appointed as an Independent Non-Executive Director and thus Audit Committee to fill up the vacancies on the same date. Dr. Hui Ho Ming, Herbert, JP is 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 2010.

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 Directors' Securities Transactions

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of Appendix 10 of the Listing Rules. All the Directors have confirmed that they complied with the required standards as set out in the Model Code throughout the year.

THE BOARD *(Continued)*

Auditors' Remuneration

The remuneration paid to Deloitte Touche Tohmatsu for audit and non-audit services for the year ended 31st March 2010 amounted to HK$1,720,000 and HK$40,000 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.

With the implementation of the amendments to the Listing Rules with effect from 1 January 2009, all resolutions proposed at all general meetings of the Company will be voted by poll. The voting results will be posted on the websites of the Stock Exchange and the Company.

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 Certified 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 25.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of CITIC 21CN Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 71, which comprise the consolidated statement of financial position as at 31st March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2010 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
15th July 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	7	**287,560**	274,645
Cost of sales and services		**(249,740)**	(261,348)
Gross profit		**37,820**	13,297
Other gains and losses	9	**15,060**	2,063
Change in fair value of convertible bonds		**–**	(5,802)
Administrative expenses		**(86,793)**	(146,222)
Impairment losses recognised in respect of PIATS business (defined in note 1)	18	**–**	(20,736)
Share of profit of an associate		**11,600**	13,148
Interest expenses	10	**(27,765)**	(1,523)
Loss before taxation		**(50,078)**	(145,775)
Taxation	11	**(1,439)**	(2,232)
Loss for the year	12	**(51,517)**	(148,007)
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		**(181)**	11,823
Total comprehensive expense for the year		**(51,698)**	(136,184)
Loss for the year attributable to:			
Owners of the Company		**(51,516)**	(148,007)
Minority interests		**(1)**	–
		(51,517)	(148,007)
Total comprehensive expense attributable to:			
Owners of the Company		**(51,697)**	(136,184)
Minority interests		**(1)**	–
		(51,698)	(136,184)
		HK cents	HK cents
Loss per share			
– Basic and diluted	15	**(1.39)**	(3.98)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	16	**93,193**	112,726
Intangible assets	17	**57,484**	61,563
Interest in an associate	19	**75,336**	121,366
Loans receivable	20	**36,893**	25,665
Available-for-sale investments	21	**8,475**	8,475
		271,381	329,795
Current assets			
Amounts due from customers for contract work	22	**3,978**	3,978
Debtors and prepayments	23	**66,554**	60,201
Investments held for trading	24	**37,533**	12,650
Bank balances and cash	25	**188,834**	196,421
		296,899	273,250
Current liabilities			
Creditors and accruals	26	**135,100**	104,532
Taxation payable		**434**	897
Short-term bank loans	27	**11,074**	24,917
		146,608	130,346
Net current assets		**150,291**	142,904
Total assets less current liabilities		**421,672**	472,699
Non-current liability			
Deferred taxation	28	**1,220**	640
		420,452	472,059
Capital and reserves			
Share capital	29	**37,179**	37,179
Reserves	30	**383,263**	434,869
		420,442	472,048
Minority interests		**10**	11
Total equity		**420,452**	472,059

The financial statements on pages 26 to 71 were approved and authorised for issue by the Board of Directors on 15th July 2010 and are signed on its behalf by:

Chen Xiao Ying
DIRECTOR

Zhang Lianyang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2010

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(Note 30)*	Contributed surplus HK$'000 *(Note 30)*	Translation reserve HK$'000	Share options reserve HK$'000	General reserve HK$'000 *(Note 30)*	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April 2008	37,179	769,675	19,215	78,108	48,984	24,965	11,851	(382,471)	607,506	11	607,517
Exchange differences arising on translation	–	–	–	–	11,823	–	–	–	11,823	–	11,823
Loss for the year	–	–	–	–	–	–	–	(148,007)	(148,007)	–	(148,007)
Total comprehensive income (expenses) for the year	–	–	–	–	11,823	–	–	(148,007)	(136,184)	–	(136,184)
Recognition of equity-settled share based payments	–	–	–	–	–	726	–	–	726	–	726
Lapse of share options	–	–	–	–	–	(2,279)	–	2,279	–	–	–
At 31st March 2009	37,179	769,675	19,215	78,108	60,807	23,412	11,851	(528,199)	472,048	11	472,059
Exchange differences arising on translation	–	–	–	–	(181)	–	–	–	(181)	–	(181)
Loss for the year	–	–	–	–	–	–	–	(51,516)	(51,516)	(1)	(51,517)
Total comprehensive expenses for the year	–	–	–	–	(181)	–	–	(51,516)	(51,697)	(1)	(51,698)
Recognition of equity-settled share based payments	–	–	–	–	–	91	–	–	91	–	91
Lapse of share options	–	–	–	–	–	(225)	–	225	–	–	–
At 31st March 2010	37,179	769,675	19,215	78,108	60,626	23,278	11,851	(579,490)	420,442	10	420,452

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March 2010

	2010 HK$'000	2009 HK$'000
Operating activities		
Loss before taxation	**(50,078)**	(145,775)
Adjustments for:		
Interest income	**(962)**	(6,793)
Imputed interest income on loans receivable	**(899)**	(626)
Dividends from equity securities	**(422)**	(379)
Change in fair value of convertible bonds	**–**	5,802
Interest expenses	**27,765**	1,523
Share of profit of an associate	**(11,600)**	(13,148)
Depreciation	**24,954**	20,945
Amortisation of intangible assets	**4,079**	4,079
Allowance for doubtful debts	**822**	3,461
Fair value adjustment on initial recognition of loans receivable	**807**	–
Impairment loss recognised in respect of property, plant and equipment	**–**	9,888
Impairment loss recognised in respect of intangible assets	**–**	10,848
Write down of inventories	**–**	1,743
Loss on disposal of property, plant and equipment	**958**	1,216
Share option expense	**91**	726
Operating cash flows before movements in working capital	**(4,485)**	(106,490)
Increase in inventories	**–**	(267)
Decrease in amounts due from customers for contract work	**–**	15,193
(Increase) decrease in debtors and prepayments	**(7,175)**	78,308
(Increase) decrease in investments held for trading	**(25,617)**	5,273
Increase in creditors and accruals	**3,753**	21,208
Cash (used in) from operations	**(33,524)**	13,225
Interest received	**962**	6,793
Dividends received from equity securities	**422**	379
Taxation paid	**(1,322)**	(836)
Net cash (used in) from operating activities	**(33,462)**	19,561
Investing activities		
Dividend received from an associate	**57,630**	–
Proceeds from disposal of property, plant and equipment	**318**	4,025
Purchase of property, plant and equipment	**(6,697)**	(22,820)
Loan advanced	**(11,300)**	–
Net cash from (used in) investing activities	**39,951**	(18,795)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March 2010

	2010 HK$'000	2009 HK$'000
Financing activities		
Repayment of convertible bonds	–	(90,455)
Repayment of short-term bank loans	**(33,223)**	(27,685)
Interest paid	**(950)**	(1,523)
New short-term bank loans raised	**19,380**	24,917
Net cash used in financing activities	**(14,793)**	(94,746)
Decrease in cash and cash equivalents	**(8,304)**	(93,980)
Cash and cash equivalents at beginning of the year	**196,421**	288,322
Effect of foreign exchange rate changes	**717**	2,079
Cash and cash equivalents at end of the year, representing bank balances and cash	**188,834**	196,421

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 address of the principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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.

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) "Presentation of financial statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating segments"

HKFRS 8 is a disclosure standard that has changed the basis of measurement of segment profit or loss (see note 8). However, the adoption of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14 (see note 8).

Improving disclosures about financial instruments (Amendments to HKFRS 7 Financial instruments: disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related party disclosures[7]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[5]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[4]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[6]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[4]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[8]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[7]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[6]

1 Effective for annual periods beginning on or after 1st July 2009.
2 Amendments that are effective for annual periods beginning on or after 1st July 2009 and 1st January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1st July 2010 and 1st January 2011, as appropriate.
4 Effective for annual periods beginning on or after 1st January 2010.
5 Effective for annual periods beginning on or after 1st February 2010.
6 Effective for annual periods beginning on or after 1st July 2010.
7 Effective for annual periods beginning on or after 1st January 2011.
8 Effective for annual periods beginning on or after 1st January 2013.

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

New and revised HKFRSs in issue but not yet effective *(Continued)*

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control which will be accounted for as equity transactions.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements 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 statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in an associate

An associate is an entity over which the investor 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 associates are incorporated in these consolidated financial statements using the equity method of accounting except when the investment is classified as held for sale. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, unrealised 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for 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.

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.

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 on initial recognition.

Dividend income from investments is recognised when the shareholders' 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 revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. 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 other than construction in progress 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 and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified in the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued 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 profit or loss in the period 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 profit or loss when the asset is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment losses on tangible and intangible asset

At the end of the reporting period, 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.

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference 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)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Leasing

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 lease are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense 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 and amortised over the lease term on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("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.

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement 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 or interest 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. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loans receivable and bank balances and cash) 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 the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. 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 affected.

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.

For other financial assets, the objective evidence of impairment 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.

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.

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.

Impairment losses for available-for-sale equity investments will not be reversed through profit or loss in subsequent periods.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

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

Financial liabilities including bank loans, 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 receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded 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 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 the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest, irrespective of market conditions. 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Retirement benefit cost

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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.

Estimated impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost less subsequent accumulated depreciation/amortisation and accumulated impairment losses. Property, plant and equipment and intangible assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimation of the future cash flows generated by each asset or group of assets. If the recoverable amounts are less than the carrying amounts of the property, plant and equipment and intangible assets, the relevant asset's carrying amount is written down to the recoverable amount. If the management's expectation is different, it will impact on the carrying value and write downs of property, plant and equipment and intangible assets in the periods in which such estimate is changed. At 31st March 2010, the carrying amount of property, plant and equipment and intangible assets are HK$93,193,000 (2009: HK$112,726,000) and HK$57,484,000 (2009: HK$61,563,000) respectively (net of accumulated impairment loss of HK$9,888,000 (2009: HK$9,888,000) and HK$10,848,000 (2009: HK$10,848,000) respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st March 2010, the carrying amount of trade receivables is HK$51,885,000 (2009: HK$43,180,000) (net of allowance for doubtful debts of HK$25,000,000 (2009: HK$24,178,000)).

Income taxes

As at 31st March 2010, no deferred tax asset was recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of HK$215,513,000 (2009: HK$197,326,000) 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 profit or loss for the period in which such a recognition takes place.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 **HK$'000**	2009 HK$'000
Financial assets		
Investments held for trading	**37,533**	12,650
Loans and receivables (including cash and cash equivalents)	**279,648**	267,302
Available-for-sale financial assets	**8,475**	8,475
	325,656	288,427
Financial liabilities		
Amortised cost	**122,979**	109,718

Financial risk management objectives and policies

The Group's major financial instruments include debtors, available-for-sale investments, investments held for trading, loans receivable, bank balances and cash, creditors and short-term bank loans. 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.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Currency risk

The carrying amounts of the Group's foreign currency denominated assets (including loans receivable, investments held for trading and bank balances and cash) at the reporting date are as follows:

	Assets	
	2010	2009
	HK$'000	HK$'000
	equivalent	equivalent
United States Dollars ("USD")	**97,371**	101,947

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 a 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.

	2010	2009
	HK$'000	HK$'000
USD	**4,869**	5,097

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). However, the management considered the risk of fixed-rate bank borrowing is insignificant.

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

No sensitivity analyses have been prepared since the management of the Group considers that the Group's interest rate risk at the end of the reporting date is insignificant.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting date.

If the prices of the respective listed equity instruments had been 20% higher/lower, loss for the year ended 31st March 2010 decrease/increase by HK$7,507,000 (2009: decrease/increase by HK$2,532,000) as a result of the changes in fair value of investments held for trading.

Credit risk

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 statement of financial position.

In order to minimise the credit risk in relation to loans receivable and debtors, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period 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.

The Group has concentration of credit risk of the Group's loans receivable from a jointly controlled entity. In order to minimise the credit risk, the management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or to recover overdue balance.

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

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").

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 non-derivative financial liabilities based on the agreed repayment terms. 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 estimated interest payment based on interest rate at the end of the reporting date and principal cash flows.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity 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$'000	Carrying amount at 31.3.2010 HK$'000
2010							
Non-derivative financial liabilities							
Trade and other payables	–	111,905	–	–	–	111,905	111,905
Bank loans							
– fixed rate	5.84%	53	108	11,109	–	11,270	11,074
		111,958	108	11,109	–	123,175	122,979

	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$'000	Carrying amount at 31.3.2009 HK$'000
2009							
Non-derivative financial liabilities							
Trade and other payables	–	84,801	–	–	–	84,801	84,801
Bank loans							
– fixed rate	6.26%	128	8,512	16,639	–	25,279	24,917
		84,929	8,512	16,639	–	110,080	109,718

Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

5. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		31 December 2009		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL:				
Investments held for trading				
– Listed equity securities	37,533	–	–	37,533

There were no transfers between Level 1 and 2 in the current year.

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 owners of the Company, comprising issued share capital and reserves.

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 as well as raising bank loans or other borrowings.

7. TURNOVER

	2010 HK$'000	2009 HK$'000
An analysis of the Group's turnover is as follows:		
Telecommunications/information value-added services	**279,447**	259,371
Product identification, authentication, tracking system business	**8,035**	13,306
System integration and software development	**78**	1,968
	287,560	274,645

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Executive Vice Chairman, the Group's chief operating decision maker, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment result, segment assets and segment liabilities.

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 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. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segments:

	Segment revenue		Segment profit (loss)	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Telecommunication/information value-added services	**279,447**	259,371	**7,747**	(19,173)
PIATS business	**8,035**	13,306	**(28,965)**	(73,949)
System integration and software development	**78**	1,968	**(2,386)**	(17,718)
Total	**287,560**	274,645	**(23,604)**	(110,840)
Other gains and losses			**15,060**	2,063
Change in fair value of convertible bonds			**–**	(5,802)
Share of profit of an associate			**11,600**	13,148
Interest expenses			**(27,765)**	(1,523)
Unallocated expenses			**(25,369)**	(42,821)
Loss before taxation			**(50,078)**	(145,775)
Taxation			**(1,439)**	(2,232)
Loss for the year			**(51,517)**	(148,007)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2009: nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administrative costs, share of profit of an associate, other gains and losses, interest expenses and taxation. This is the measure reported to the Executive Vice Chairman, the Group's chief operating decision maker, for the purposes of resources allocation and performance assessment.

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

	2010 HK$'000	2009 HK$'000
Segment assets		
Telecommunications/information value-added services	98,687	94,713
PIATS business	105,824	123,331
System integration and software development	10,816	12,501
Total segment assets	215,327	230,545
Interest in an associate	75,336	121,366
Loans receivable	36,893	25,665
Investments held for trading	37,533	12,650
Available-for-sale investments	8,475	8,475
Bank balances and cash	188,834	196,421
Unallocated assets	5,882	7,923
Consolidated assets	568,280	603,045
Segment liabilities		
Telecommunications/information value-added services	34,115	33,574
PIATS business	82,260	52,320
System integration and software development	6,390	6,399
Total segment liabilities	122,765	92,293
Short-term bank loans	11,074	24,917
Unallocated liabilities	13,989	13,776
Consolidated liabilities	147,828	130,986

For the purposes of monitoring segment performances and allocating resources between segments:

– All assets are allocated to operating segments other than investments held for trading, available-for-sale investments, loans receivable, bank balances and cash and interest in an associate and assets used jointly by operating segments.

– All liabilities are allocated to operating segments other than short-term bank loans, taxation payable and deferred tax liabilities and liabilities for which operating segments are jointly liable.

8. SEGMENT INFORMATION *(Continued)*

Other segment information

2010

Amounts included in the measure of segment profit or loss or segment asset:

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Segment total HK$'000	Others HK$'000	Total HK$'000
Additions to non-current assets (*note*)	**4,649**	**2,031**	**–**	**6,680**	**17**	**6,697**
Depreciation	**10,779**	**12,112**	**70**	**22,961**	**1,993**	**24,954**
Amortisation of intangible assets	**–**	**4,079**	**–**	**4,079**	**–**	**4,079**
(Reversal of) allowance for doubtful debts	**(447)**	**(272)**	**1,541**	**822**	**–**	**822**
Loss on disposal of property, plant and equipment	**958**	**–**	**–**	**958**	**–**	**958**

Note: Non-current assets represent property, plant and equipment and intangible assets.

2009

Amounts included in the measure of segment profit or loss or segment assets:

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Segment total HK$'000	Others HK$'000	Total HK$'000
Additions to non-current assets (*note*)	12,937	3,868	4	16,809	6,011	22,820
Depreciation	11,695	6,772	94	18,561	2,384	20,945
Amortisation of intangible assets	–	4,079	–	4,079	–	4,079
Impairment loss recognised in respect of property, plant and equipment	–	9,888	–	9,888	–	9,888
Impairment loss recognised in respect of intangible assets	–	10,848	–	10,848	–	10,848
Allowance for doubtful debts	–	489	2,972	3,461	–	3,461
Write down of inventories	–	–	1,743	1,743	–	1,743
Loss (gain) on disposal of property, plant and equipment	1,257	(41)	–	1,216	–	1,216

Note: Non-current assets represent property, plant and equipment and intangible assets.

8. SEGMENT INFORMATION *(Continued)*

Geographical information

Substantially all of the Group's revenue and non-current assets were derived from and located in PRC and, therefore, no geographical analysis is presented.

Information about major customers

Revenues from customers contributing over 10% of the total sales of the Group of the corresponding years are as follows:

	2010 HK$'000	2009 HK$'000
Customer A[1]	**71,832**	46,168
Customer B[1]	**35,186**	N/A[2]
Customer C[1]	**30,961**	N/A[2]

1 Revenues from telecommunication/information value-added services.

2 The corresponding revenue did not contribute over 10% of the total sales of the Group.

9. OTHER GAINS AND LOSSES

	2010 HK$'000	2009 HK$'000
Included in other gains and losses are the following items:		
Interest income from bank deposits	**962**	6,793
Imputed interest income on loans receivable	**899**	626
Dividends from equity securities	**422**	379
Change in fair value of investments held for trading	**12,794**	(5,273)
Net exchange loss	**(17)**	(597)
Others	**–**	135
	15,060	2,063

10. INTEREST EXPENSES

	2010 HK$'000	2009 HK$'000
Interest on bank loans wholly repayable within five years	**950**	1,523
Other interest expense *(note)*	**26,815**	–
	27,765	1,523

Note: Amount represents other interest expense as disclosed in note 37.

11. TAXATION

	2010 HK$'000	2009 HK$'000
Current tax:		
– PRC Enterprise Income Tax – Jointly controlled entities	**859**	1,592
Deferred tax		
– Current year *(note 28)*	**580**	640
	1,439	2,232

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries and jointly controlled entities are 25% from 1st January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, one of the Group's jointly controlled entities and a subsidiary are entitled to exemption from PRC Enterprise Income Tax for the two years starting from the year ended 31st March 2006 and a 50% relief for the subsequent three years. They would continue to enjoy such tax benefits until the exemption and reduction period expire, but not beyond 2012. The jointly controlled entity and the subsidiary incurred tax loss in both years. Another jointly controlled entity of the Group operating in the PRC is eligible for tax concession during the year.

The charge for the year can be reconciled to the loss before taxation per consolidated statement of comprehensive income as follows:

	2010 HK$'000	2009 HK$'000
Loss before taxation	**(50,078)**	(145,775)
Tax credit at the applicable tax rate of 25% (2009: 25%)	**(12,519)**	(36,444)
Tax effect of income that is not taxable for the tax purposes	**(2,828)**	(1,399)
Tax effect of share of profit of an associate	**(2,900)**	(3,287)
Tax effect of expenses that are not deductible for tax purposes	**12,338**	18,770
Tax effect of tax losses not recognised	**4,547**	19,914
Utilisation of tax losses previously not recognised	**(4)**	–
Effect of different tax rates of subsidiaries operating in Hong Kong, which incurred tax losses during the year	**3,128**	4,038
Income tax at concessionary rate	**(903)**	–
Deferred taxation arising from withholding tax on undistributed profit of an associate	**580**	640
Taxation for the year	**1,439**	2,232

12. LOSS FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Loss for the year has been arrived at after charging:		
Directors' remuneration *(note 13)*	**3,862**	2,792
Other staff's retirement benefits scheme contributions	**2,424**	1,987
Other staff costs	**76,858**	70,387
Share option expense *(note 31)*	**91**	726
Total staff costs	**83,235**	75,892
Allowance for doubtful debts (included in administrative expenses)	**822**	3,461
Amortisation of intangible assets (included in cost of sales and services)	**4,079**	4,079
Auditor's remuneration	**2,213**	2,319
Fair value adjustment on initial recognition of loan receivable *(note 20(a))*	**807**	–
Cost of inventories recognised as an expense (included amount of write down of inventories of HK$1,743,000 for 2009, nil for 2010) included in cost of sales and services	**241**	2,140
Depreciation	**24,954**	20,945
Loss on disposal of property, plant and equipment	**958**	1,216
Operating lease rentals in respect of buildings	**9,374**	9,986
Share of tax of an associate (included in share of profit of an associate)	**1,856**	2,565

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2009: 10) 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 Lianyang HK$'000	Ms. Xia Guilan HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Chen Wuzhao HK$'000 *(note 1)*	Mr. Long Junsheng HK$'000 *(note 2)*	2010 Total HK$'000
Fees	2,000	–	–	–	–	–	360	–	120	82	2,562
Other emoluments											
– salaries and other benefits	–	1,288	–	–	–	–	–	–	–	–	1,288
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	–	–	–	12
Total emoluments	2,000	1,300	–	–	–	–	360	–	120	82	3,862
Share option expenses	–	–	–	–	–	–	–	–	–	–	–

Notes:

(1) Resigned on 2nd November 2009

(2) Appointed on 2nd November 2009

	Mr. Wang Jun HK$'000	Ms. Chen Xiao Ying HK$'000	Mr. Luo Ning HK$'000	Mr. Sun Yalei HK$'000	Mr. Zhang Lianyang 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$'000	Mr. Chen Wuzhao HK$'000	2009 Total HK$'000
Fees	1,000	–	–	–	–	–	360	–	82	50	1,492
Other emoluments											
– salaries and other benefits	–	1,288	–	–	–	–	–	–	–	–	1,288
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	–	–	–	12
Total emoluments	1,000	1,300	–	–	–	–	360	–	82	50	2,792
Share option expenses	–	–	–	–	–	–	–	–	–	–	–

During both years, 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 both years.

14. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2009: two) director(s) of the Company, whose emoluments are included in note 13 above. The aggregate emoluments of the remaining three (2009: three) highest paid individuals are as follows:

	2010 HK$'000	2009 HK$'000
Salaries and allowances	**3,542**	3,131
Share option expenses	**91**	547
Retirement benefits scheme contributions	**36**	19
	3,669	3,697

The emoluments of the individuals fall within the following band:

	Number of individuals	
	2010	2009
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	1
	3	3

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company for the year is based on the following data:

	2010 HK$'000	2009 HK$'000
Loss for the purposes of basic and diluted loss per share	**(51,516)**	(148,007)

Number of ordinary shares

	2010	2009
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,717,869,631**	3,717,869,631

The calculation of diluted loss per share for the year ended 31st March 2010 and 31st March 2009 does not include the exercise of the share options outstanding as the exercise of the share options outstanding would result in a decrease in loss per share for both years.

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 2008	1,991	12,908	147,428	8,556	37,763	208,646
Currency realignment	55	242	4,025	162	1,031	5,515
Additions	–	7,450	11,566	531	3,273	22,820
Disposals	–	(2,563)	(22,641)	(1,943)	(23)	(27,170)
Transfers	–	19	30,861	–	(30,880)	–
At 31st March 2009	2,046	18,056	171,239	7,306	11,164	209,811
Additions	–	187	5,378	–	1,132	6,697
Disposals	–	(57)	(7,270)	(401)	(228)	(7,956)
Transfers	–	211	7,211	–	(7,422)	–
At 31st March 2010	**2,046**	**18,397**	**176,558**	**6,905**	**4,646**	**208,552**
DEPRECIATION AND IMPAIRMENT						
At 1st April 2008	876	8,802	68,821	7,412	–	85,911
Currency realignment	26	166	1,926	152	–	2,270
Provided for the year	70	3,194	16,653	1,028	–	20,945
Impairment loss recognised	–	–	9,888	–	–	9,888
Eliminated on disposals	–	(2,468)	(17,684)	(1,777)	–	(21,929)
At 31st March 2009	972	9,694	79,604	6,815	–	97,085
Provided for the year	105	2,803	21,698	348	–	24,954
Eliminated on disposals	–	(55)	(6,244)	(381)	–	(6,680)
At 31st March 2010	**1,077**	**12,442**	**95,058**	**6,782**	**–**	**115,359**
CARRYING VALUES						
At 31st March 2010	**969**	**5,955**	**81,500**	**123**	**4,646**	**93,193**
At 31st March 2009	1,074	8,362	91,635	491	11,164	112,726

The leasehold lands are located in PRC and held under medium term leases.

Particulars regarding impairment assessment for both years are disclosed in note 18.

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	
At 1st April 2008	79,423
Currency realignment	2,166
At 31st March 2009 and 31st March 2010	**81,589**
AMORTISATION AND IMPAIRMENT	
At 1st April 2008	4,964
Currency realignment	135
Impairment loss recognised for the year	10,848
Provided during the year	4,079
At 31st March 2009	20,026
Provided during the year	4,079
At 31st March 2010	**24,105**
CARRYING VALUES	
At 31st March 2010	**57,484**
At 31st March 2009	61,563

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.

Particulars regarding impairment assessment are disclosed in note 18.

18. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF PIATS BUSINESS

	2009 HK$'000
Impairment loss recognised in respect of property, plant and equipment	9,888
Impairment loss recognised in respect of intangible assets	10,848
	20,736

Management of the Group was determined that there were no impairments of its PIATS business during the year ended 31st March 2010 as there was continuous support from government.

During the year ended 31st March 2009, impairment losses were identified for property, plant and equipment and intangible assets which are used in the PIATS business as a result of the weaker and slower than expected support from government.

The recoverable amount of PIATS business has been determined on the basis of value in use calculation. The key factors for the value in use calculation are discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the PIATS business. The growth rates are based on industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

During the year ended 31st March 2010, the Group performed impairment review for the PIATS business based on cash flow forecasts derived from the most recent financial budgets for the next three years using a discount rate of 22.35% (2009: 11.71%), while the remaining forecast periods of seven years has been extrapolated with reference to annual growth rate in the relevant industry.

HK$9,888,000 (2010: nil) and HK$10,848,000 (2010: nil) had been recognised in respect of property, plant and equipment and intangible assets respectively during the year ended 31st March 2009.

Management believes that any reasonably possible change in any of the assumptions will not cause the carrying amount of PIATS business to exceed the recoverable amount.

19. INTEREST IN AN ASSOCIATE

	2010 HK$'000	2009 HK$'000
Cost of investment in unlisted shares	**28,026**	57,345
Contribution from a shareholder	**19,215**	19,215
Share of post-acquisition profit, net of dividend received	**24,400**	41,111
Currency realignment	**3,695**	3,695
	75,336	121,366

Name of the company	Place of registration and operation	Nominal value of registered capital	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	RMB71,428,571	30% (2009: 30%)	Operation of a platform for electronic customs processing

The summarised financial information in respect of the associate prepared in accordance with Hong Kong Financial Reporting Standards is set out below:

	2010 HK$'000	2009 HK$'000
Total assets	**307,907**	460,725
Total liabilities	**(56,787)**	(56,172)
Net assets	**251,120**	404,553
Group's share of net assets of the associate	**75,336**	121,366
Turnover	**119,423**	128,140
Profit for the year	**38,667**	43,827
Group's share of profit of an associate for the year	**11,600**	13,148

20. LOANS RECEIVABLE

	2010 HK$'000	2009 HK$'000
Loans receivable comprises:		
Non-current assets:		
Loan to CCIT on 21st July 2009 (note a)	**10,756**	–
Loan to CCIT on 3rd March 2006 (note b)	**26,137**	25,665
	36,893	25,665

Notes:

(a) On 21st July 2009, CITIC 21CN (China) Technology Company Limited ("China Technology") (a wholly owned subsidiary of the Group), entered into a loan agreement with China Credit Information Technology Company Limited ("CCIT") (a 50% owned jointly controlled entity of the Group) in which China Technology granted a non-interest bearing and unsecured three-year loan of RMB 20,000,000 (equivalent to HK$22,600,000) to CCIT for the development of the PIATS business.

As at 31st March 2010, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$10,756,000 with effective interest rate of 2.5%.

(b) On 3rd March 2006, CITIC 21CN Telecom Company Limited ("Telecom") (a wholly owned subsidiary of the Group), entered into a loan agreement with CCIT in which Telecom granted a non-interest bearing and unsecured two-year loan of US$6,900,000 (equivalent to HK$53,475,000) (2009: equivalent to HK$53,820,000) to CCIT for the development of the PIATS business. During the year ended 31st March 2008, the maturity date of the loan was extended to 23rd March 2011 with terms and conditions remain unchanged.

As at 31st March 2010 and 2009, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$26,137,000 (2009: HK$25,665,000) with effective interest rate of 2.5% (2009: 2.5%). In the opinion of the directors, the loan is not expected to repay within twelve months after the reporting period, Accordingly, it is classified as non-current.

The Group has assessed CCIT's credit quality and considered to be of a good credit quality in view of the good prospect of the PIATS business despite of making loss at the development stage and the balance is not past due in accordance with the extension agreement at the end of the reporting period. As at 31st March, 2010, the HK$26,137,000 (2009: HK$25,665,000) loan receivable would otherwise be past due if the loan was not renegotiated. Accordingly, no impairment loss is required to recognise in the consolidated financial statements.

21. AVAILABLE-FOR-SALE INVESTMENTS

	2010 HK$'000	2009 HK$'000
Unlisted club debenture	**8,475**	8,475

The above available-for-sale investments are stated at cost less impairment at the end of the reporting period of financial position 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.

22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2010 HK$'000	2009 HK$'000
Cost incurred plus recognised profits less recognised losses	28,995	28,995
Less: Progress billings	(25,017)	(25,017)
	3,978	3,978

23. DEBTORS AND PREPAYMENTS

	2010 HK$'000	2009 HK$'000
Trade receivables	76,885	67,358
Less: Allowance for doubtful debts	(25,000)	(24,178)
	51,885	43,180
Other receivables	2,036	2,036
Deposits and prepayments	12,633	14,985
	66,554	60,201

The Group provides a credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
0 – 90 days	27,348	29,118
91 – 180 days	14,280	3,429
181 – 360 days	1,962	710
Over 360 days	8,295	9,923
	51,885	43,180

Before accepting any customer, the Group will internally assess the potential customer's credit quality and defines credit limits by customer.

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 based on the good payment history of the related debtors from historical experience.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$24,537,000 (2009: HK$14,062,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been significant changes in credit quality and the amounts are still considered recoverable based on the relationship and repayment history from the debtors. The Group does not hold any collateral over these balances.

23. DEBTORS AND PREPAYMENTS *(Continued)*

Aging of trade receivables which are past due but not impaired

	2010 HK$'000	2009 HK$'000
91 – 180 days	14,280	3,429
181 – 360 days	1,962	710
Over 360 days	8,295	9,923
	24,537	14,062

Movement in the allowance for doubtful debts

	2010 HK$'000	2009 HK$'000
Balance at beginning of the year	24,178	20,167
Currency realignment	–	550
Increase in allowance recognised in profit or loss	822	3,461
Balance at end of the year	25,000	24,178

The Group's allowance for doubtful debts are related to individually impaired trade receivables. The individually impaired receivables related to customers that were in financial difficulties and the directors consider the recoverability of these debts is remote.

24. INVESTMENTS HELD FOR TRADING

	2010 HK$'000	2009 HK$'000
Listed securities at fair value:		
– equity securities listed in Hong Kong	14,800	10,075
– equity securities listed elsewhere	22,733	2,575
	37,533	12,650

The fair value of the above investments held for trading 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 0.01% to 0.10% (2009: 0.05% to 4.45%) during the year.

Included in the bank balances are Renminbi short-term bank deposits of HK$61,666,000 (2009: HK$108,723,000) kept in banks registered in the PRC, and which are subjected to exchange control.

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

	2010 HK$'000 equivalent	2009 HK$'000 equivalent
United States Dollars	**48,501**	73,707

26. CREDITORS AND ACCRUALS

	2010 HK$'000	2009 HK$'000
Trade payables	**34,751**	31,905
Receipts in advance from customers	**4,818**	6,996
Other interest payable	**26,815**	–
Other payables and accruals	**68,716**	65,631
	135,100	104,532

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
0 – 90 days	**16,194**	12,078
91 – 180 days	**790**	1,348
181 – 360 days	**285**	3,363
Over 360 days	**17,482**	15,116
	34,751	31,905

27. SHORT-TERM BANK LOANS

During the year ended 31st March 2010, Beijing Honglian 95 Information Industries Company Limited ("HL95"), a jointly controlled entity of the Group obtained bank loans of RMB15,000,000 and RMB20,000,000 (equivalent to HK$16,950,000 and HK$22,600,000) (2009: RMB15,000,000 and RMB30,000,000 (equivalent to HK$16,950,000 and HK$33,900,000)) secured by corporate guarantee from another joint venture partner. The loan carries fixed interest rate at 5.84% (2009: 6.45% and 6.16%) per annum and due for payment in July 2010 (2009: May 2010 and July 2010 respectively). As at 31st March 2010, the Group share 49% of the amount of short-term bank loans of HL95 of HK$11,074,000 (2009: HK$24,917,000) stated in the consolidated statement of financial position.

28. DEFERRED TAXATION

The following deferred tax liability mainly arising from withholding tax applied on the profit of the PRC associate for the year ended 31st March 2010 and movement thereon during the year:

	HK$'000
At 1st April 2008	–
Charged to profit or loss during the year	640
At 31st March 2009	640
Charged to profit or loss during the year	580
At 31st March 2010	1,220

At the end of the reporting period, the Group has unused tax losses of approximately HK$215,513,000 (2009: HK$197,326,000) 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. Included in tax losses are losses of HK$18,210,000, HK$79,656,000 and HK$41,479,000 (2009: HK$79,656,000 and HK$41,479,000) that will expire in year 2014, 2013 and 2012 respectively (2009: year 2013 and year 2012). These tax losses have not been agreed with the local tax bureau in the PRC. Other losses can be carried forward indefinitely.

29. SHARE CAPITAL

	Number of ordinary shares	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1st April 2008, 31st March 2009 and 31st March 2010	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April 2008, 31st March 2009 and 31st March 2010	3,717,869,631	37,179

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.

General reserve represents the share of PRC statutory reserves from subsidiaries and 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 1.4.2008	Lapse during the year ended 31.3.2009	Outstanding at 31.3.2009 and 31.3.2010
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	13.7.2001 – 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	(70,000,000)	155,000,000
Exercisable at the end of the year					155,000,000
Weighted average exercise price			HK$0.9102	HK$0.9900	HK$0.8742

– 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 1.4.2008	Granted during the year ended 31.3.2009	Lapsed during the year ended 31.3.2009	Forfeited during the year ended 31.3.2009	Outstanding at 31.3.2009	Granted during the year ended 31.3.2010	Lapsed during the year ended 31.3.2010	Forfeited during the year ended 31.3.2010	Outstanding at 31.3.2010
Employees:											
13.7.2000	13.7.2002 – 27.5.2008	0.9900	200,000	–	(200,000)	–	–	–	–	–	–
22.9.2004	22.9.2007 – 22.10.2007	1.2300	–	–	–	–	–	–	–	–	–
1.2.2005	5.1.2006 – 31.1.2015	2.2550	–	–	–	–	–	–	–	–	–
1.2.2005	5.1.2007 – 31.1.2015	2.2550	–	–	–	–	–	–	–	–	–
1.2.2005	5.1.2008 – 31.1.2015	2.2550	–	–	–	–	–	–	–	–	–
2.3.2005	2.9.2005 – 1.3.2015	2.5250	366,666	–	–	–	366,666	–	–	–	366,666
2.3.2005	2.9.2006 – 1.3.2015	2.5250	366,667	–	–	–	366,667	–	–	–	366,667
2.3.2005	2.3.2008 – 1.3.2015	2.5250	366,667	–	–	–	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	1.6.2007 – 30.6.2007	2.1750	–	–	–	–	–	–	–	–	–
1.6.2005	1.6.2008 – 30.6.2008	2.1750	2,533,334	–	(2,533,334)	–	–	–	–	–	–
1.6.2005	1.6.2009 – 30.6.2009	2.1750	200,000	–	–	(200,000)	–	–	–	–	–
1.6.2005	1.6.2010 – 30.6.2010	2.1750	200,000	–	–	(200,000)	–	–	–	–	–
4.6.2007	4.6.2008 to 3.6.2017	2.500	12,300,000	–	–	(5,400,000)	6,900,000	–	–	(600,000)	6,300,000
4.6.2007	4.6.2009 to 3.6.2017	2.500	8,200,000	–	–	(3,600,000)	4,600,000	–	–	(400,000)	4,200,000
4.6.2007	Note (a)	2.500	10,250,000	–	–	(4,500,000)	5,750,000	–	–	(500,000)	5,250,000
4.6.2007	Note (b)	2.500	10,250,000	–	–	(4,500,000)	5,750,000	–	–	(500,000)	5,250,000
			46,233,334	–	(2,733,334)	(18,400,000)	25,100,000	–	–	(2,000,000)	23,100,000
Total			271,233,334	–	(72,733,334)	(18,400,000)	180,100,000	–	–	(2,000,000)	178,100,000
Exercisable at the end of the year											12,600,000
Weighted average exercise price			HK$2.4480	–	HK$2.0883	HK$2.4929	HK$2.5280	–	–	HK$0.2717	HK$2.3288

Notes:

(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.

No share options has been exercised during the year ended 31st March 2010 and 31st March 2009.

The Group recognised expense of HK$91,000 for the year ended 31st March 2010 (2009: HK$726,000) 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% (2009: 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% (2009: 50%)	Provision of product identification, authentication, tracking system business

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

	2010 HK$'000	2009 HK$'000
Current assets	**76,090**	74,742
Non-current assets	**59,582**	69,808
Current liabilities	**58,922**	73,457
Income	**283,602**	268,792
Expenses	**287,491**	305,696
Taxation	**859**	1,213

33. OPERATING LEASES

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

	2010 HK$'000	2009 HK$'000
Within one year	**6,120**	6,861
In the second to fifth years inclusive	**4,026**	3,457
	10,146	10,318

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

34. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**84**	444

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 basic 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

(a) Transactions with other state-controlled entities in the PRC

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:

`	**2010 HK$'000**	2009 HK$'000
Telecommunications/information value-added services agency fee expenses *(note)*	**52,756**	47,375

Note: 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.

(b) Transactions with other shareholders of an associate and a jointly controlled entity

	2010 HK$'000	2009 HK$'000
Telecommunications/information value-added services agency fee expenses *(note)*	**7,282**	8,418

Note: 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.

37. ARBITRATION

On 29th October 2009, the Company received the Arbitration Notice issued by China International Economic and Trade Arbitration Commission ("CIETAC"). According to the Arbitration Notice, Beijing Oracle Software Systems Co., Ltd. ("Oracle Beijing") submitted an application in relation to an arbitration (the "Arbitration") on the dispute arising from the Payment Agreement signed by Oracle Beijing, CITIC 21CN (China) Technology Company Limited, the Company and Oracle Systems Hong Kong Limited on 30th May 2006. The Payment Agreement set out the settlement arrangement of license fee and service fee in relation to the Oracle License and Services Agreement in an aggregate amount of approximately RMB116 million against which approximately US$11 million (approximately RMB88 million) deposit has been paid by the Group. The reason for the dispute over the Payment Agreement was that the parties to the agreements could not reach a consensus on the execution of the agreements.

On 23rd June 2010, the Company received the Arbitration ruling issued by CIETAC. The Arbitration ruling resulted in the interest expenses for the period starting from the date on which the payment was due up to 1st October 2009 at 0.02% daily rate of HK$26,815,000 and legal fees of HK$1,480,000 to be borne by the Company. Accordingly, full provision of the aforesaid amounts have been made in the consolidated financial statements in current year.

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 2010 and 2009 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% (2009: 100%)	System integration and software development
CITIC 21 CN (China) Technology Company Limited	PRC	RMB50,000,000	–	100% (2009: 100%)	Provision of product identification, authentication and tracking system business
Guangdong Grand Cycle Technology Company Limited	PRC	HK$21,000,000	–	100% (2009: 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				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**287,560**	274,645	233,374	286,057	403,545
(Loss) profit before taxation	**(50,078)**	(145,775)	(76,400)	(62,212)	19,387
Taxation	**(1,439)**	(2,232)	(133)	(2,353)	(13,100)
(Loss) profit for the year	**(51,517)**	(148,007)	(76,533)	(64,565)	6,287
Attributable to:					
Owners of the Company	**(51,516)**	(148,007)	(75,860)	(60,998)	9,153
Minority interests	**(1)**	–	(673)	(3,567)	(2,866)
	(51,517)	(148,007)	(76,533)	(64,565)	6,287

	As at 31st March				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**568,280**	603,045	800,373	943,737	1,007,208
Total liabilities	**(147,828)**	(130,986)	(192,856)	(624,830)	(665,770)
	420,452	472,059	607,517	318,907	341,438
Equity attributable to owners of the Company	**420,442**	472,048	607,506	318,240	337,765
Minority interests	**10**	11	11	667	3,673
	420,452	472,059	607,517	318,907	341,438