# CITIC 21CN
# 中信 21世紀

## CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 241

# ANNUAL REPORT 2013

# 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. AU Kin Fai, HKICPA

## QUALIFIED ACCOUNTANT

Mr. YUEN Wai Ho, FCCA, FCPA

## AUTHORISED REPRESENTATIVES

Ms. CHEN Xiao Ying
Mr. AU Kin Fai, HKICPA

## 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 ADVISOR

### Hong Kong

Chu & Lau Solicitors & Notaries

### Bermuda

Appleby

## AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
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

China CITIC Bank International Limited
The Hongkong and Shanghai Banking Corporation Limited

# CHAIRMAN'S STATEMENT

In 2012, CITIC 21CN Company Limited and its subsidiaries (collectively referred to as the "Group") followed the established development direction, the whole management and staff of the Group worked dedicatedly and achieved long-step advancement in all aspects.

Following the growing concern over the safety of medical products on the national level, the promotion of the Group's business of Product Identification, Authentication, Tracking System ("PIATS") has been well-recognized and supported by the relevant governmental departments, and PIATS business has gained excellent opportunities. During the year, the Group has significantly enhanced the overall efficiency of PIATS system. In the future, the Group will further reinforce on the infrastructure facilities of the PIATS system, so as to ensure the practicability, user-friendliness and manageability of the system. Honglian 95, a jointly controlled entity of the Group, has remained consolidated its position in the mobile and telecommunication value-added services industry and call centre service sectors. In the same time, it is also intended to combine the PIATS for transformation of services and expansion of new business. By virtue of the national service network, it is providing a user-friendly service platform for the consumers and enterprises as well as building a strong support to the PIATS. The business of Dongfang Customs under the Group's investment still provided us with reasonable 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 2013 and the comparative figures for the year ended 31st March 2012 are summarized as follows:

| | **2013** **HK$'000** | 2012 HK$'000 | Change % |
|---|---|---|---|
| Turnover | **489,885** | 481,663 | 1.7 |
| Gross profit | **71,383** | 54,919 | 30.0 |
| Gross profit percentage | **14.6%** | 11.4% | 28.1 |
| Other income, gains and losses | **805** | 5,699 | (85.9) |
| Administrative expenses | **111,937** | 88,474 | 26.5 |
| Impairment losses recognised in respect of PIATS business | **–** | 7,808 | N/A |
| Share of profit of an associate | **1,962** | 19,172 | (89.8) |
| Reversal of accrued interest and related expenses in connection with arbitration and litigation | **–** | 26,271 | N/A |
| Net loss attributable to owners | **41,344** | 7,735 | 434.5 |
| Loss per share | | | |
| Basic and diluted | **1.11 HK cents** | 0.21 HK cents | 428.6 |

## FINANCIAL REVIEW (Continued)

### Results

– **Turnover**

Turnover of the Group for the year increased by 1.7% from HK$481,663,000 to HK$489,885,000. The slight 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 2013 increased by 0.6% to HK$473,648,000 from HK$470,671,000 for the year ended 31st March 2012. The Group's share of the turnover of HL95 comprised HK$320,282,000 (2012: HK$261,861,000) from call centres, HK$112,794,000 (2012: HK$173,286,000) from short messaging services ("SMS"), HK$7,686,000 (2012: HK$10,554,000) from fixed-line interactive voice response system ("IVRS"), HK$9,461,000 (2012: HK$7,485,000) from mobile IVRS, HK$8,598,000 (2012: HK$9,963,000) from Internet-protocol ("IP") phone, and HK$14,827,000 (2012: HK$7,522,000) from other value-added services.

The increase in turnover of call centre business by HK$58,421,000 roughly offset the decrease in turnover of SMS business by HK$60,492,000, while the other traditional SP services, such as IVRS, IP and other value-added services altogether was maintained at a similar level. Call centre revenue continued to grow at a healthy rate of 22.3%, which was mainly due to the continuous expansion of call centre capacity and the procurement of various new outsourcing contracts across China. HL95's call centre customer base has been extended to various industries of bank, telecom, insurance and utility. Call centre industry is still growing in China and HL95 has successfully become one of the largest reputable operators in the industry. The significant decrease in turnover of SMS business was affected by an increasing acceptance of cross-platform messaging applications used by consumers. There were no substantial fluctuations in the normal markets for IVRS and IP Phone businesses even though the competition remained keen. The decrease in fixed-line IVRS revenue during the year was compensated by the increase in mobile IVRS revenue. IP phone revenue decreased by HK$1,365,000 under the tight competition from other IP phone providers. Increase in other value-added service revenue was mainly due to the increase in revenue generated from technical support services to customers.

(b) 中信21世紀(中國)科技有限公司 (CITIC 21CN(China) Technology Company Limited ("CITIC 21CN Technology")) (a wholly-owned subsidiary of the Group) and 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited ("CCIT")) (a 50%-owned subsidiary of the Group), are engaged in PIATS business. The Group's share of the revenue of PIATS business for the year ended 31st March 2013 increased by 31.6% to HK$12,816,000 from HK$9,741,000 for the year ended 31st March 2012. The growth in revenue during the year was due to an increased service fee income following the intensive promotion of PIATS in drug industry.

## FINANCIAL REVIEW (Continued)

### Results (Continued)

– **Turnover (Continued)**

(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 2013 was HK$3,421,000 as compared with the turnover of HK$1,251,000 for the year ended 31st March 2012. The operations of Grand Cycle had already been scaled down and the turnover for both years represented those revenue generated from the outstanding system integration service contracts to the telecom industry.

– **Gross profit percentage**

During the current year, the Group recorded an improved gross profit percentage of 14.6% when compared with that of 11.4% last corresponding year. The improvement was mainly attributable to certain economies of scale of HL95's call centre business after years of experience. There was also a reduction in the gross loss of PIATS business compared to that of last corresponding year, as a result of an increase in turnover.

– **Other income, gains and losses**

During the year, other income, gains and losses recorded a loss of HK$805,000 as compared with the loss of HK$5,699,000 for the last corresponding year. Such decrease in loss was the net result of various items regarding mainly i) Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary of HK$11,492,000 in the current year and ii) the change in fair value of investments held for trading amounted to a gain of HK$6,091,000 (2012: loss of HK$8,660,000) during the year. The investment market showed slight improvement during this year.

– **Administrative expenses**

Administrative expenses for the year ended 31st March 2013 was HK$111,937,000 when compared to HK$88,474,000 in last corresponding year. Such increase was principally due to the continuous expansion of HL95's call centre business which led to higher labour costs and office expenses. Moreover, the Group incurred high technical staff costs on the reinforcement of infrastructure facilities of PIATS system.

## FINANCIAL REVIEW (Continued)

### Results (Continued)

– **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$1,962,000 for the year ended 31st March 2013, representing a decrease of 89.8% when compared with HK$19,172,000 for the year ended 31st March 2012. The decrease was mainly due to the increase in costs for the development of new business model on selling equipment and system for customs declaration. Dongfang Customs has been upgrading its existing system by introducing more new and enhanced features to attract users using their services.

– **Reversal of accrued interest and related expenses in connection with arbitration and litigation**

In the last financial year, the Company reversed the accrued interest and related expenses of HK$26,271,000 in connection with arbitration and litigation, which was not recurrent in this year. Details were set out in the note 39 "Arbitration and litigation".

– **Net loss attributable to shareholders**

Net loss attributable to shareholders for the year ended 31st March 2013 was HK$41,344,000, representing an increase of 434.5% over HK$7,735,000 in last corresponding year. The net increase in loss was due to the net result of various factors including the increase in administrative expenses, decrease in share of profit of an associate, absence of a reversal of accrued interest and related expenses in connection with arbitration and litigation as in last year, as only partly offset by the increase in gross profit resulting from increase in gross profit margin, decrease in loss of other income, gains and losses, and an absence of additional impairment losses recognised in respect of PIATS business in this year. These various factors are explained above.

– **Loss per share**

Basic and diluted loss per share was HK1.11 cents for the year ended 31st March 2013, representing an increase of 428.6% over HK0.21 cents for the last corresponding year.

## FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 31st March 2013 and the corresponding comparative figures as at 31st March 2012 are summarized as follows:

| | **31st March 2013 HK$'000** | 31st March 2012 HK$'000 |
|---|---|---|
| Current assets | **259,885** | 275,082 |
| Including | | |
| – bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi) | **134,948** | 133,813 |
| – debtors | **77,978** | 65,840 |
| Current liabilities | **165,724** | 134,399 |
| Including | | |
| – short-term bank loans | **6,125** | 11,956 |
| Current ratio (current assets/current liabilities) | **1.57** | 2.05 |
| Quick ratio (bank balances and cash & debtors/current liabilities) | **1.28** | 1.49 |
| Shareholders' equity | **361,817** | 398,960 |
| Gearing ratio (bank loans/shareholders' equity) | **1.69%** | 3.00% |

As at 31st March 2013, the Group reported relatively stable bank balances and cash of HK$134,948,000 (31st March 2012: HK$133,813,000).

As at 31st March 2013, trade debtors aged over 12 months were HK$3,099,000 (31st March 2012: HK$8,247,000), which were mainly related to system integration and software development business.

Bank loans on the consolidated statement of financial positions as at 31st March 2013 and 31st March 2012 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 2013, the Group showed certain drops in both current and quick ratios, mainly because of the increase in current liabilities. The current ratio was 1.57 (31st March 2012: 2.05) and the quick ratio was 1.28 (31st March 2012: 1.49).

Shareholders' equity decreased from HK$398,960,000 as at 31st March 2012 to HK$361,817,000 as at 31st March 2013, mainly because of the net loss of the Group incurred during the year ended 31st March 2013.

The Group's gearing ratio decreased from 3.00% as at 31st March 2012 to 1.69% as at 31st March 2013, mainly because of the decrease in short-term bank loans during the year ended 31st March 2013.

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

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, emphasising 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**

  The Group's subsidiaries, CITIC 21CN Technology and CCIT, 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 innovative concepts since its launch, the application of PIATS has been broadly extended countrywide to various products such as drugs, food and beverage, agricultural resources and household appliances, 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 to the area of electronic monitoring of drugs, the coverage scope has been further enlarging. During the period, those national-declared basic drugs (Version 2009) of all types, as manufactured by all production enterprises, have basically been finished with the bar code use work. It signified that the electronic monitoring of basic drugs by the country has stepped into a new stage. The Group has also further reinforced on the infrastructure facilities of PIATS system, so as to ensure the practicability, user-friendliness and manageability of the system, and to enhance significantly on its overall efficiency. During the period, the company has continued to undertake the relevant technical support services, enterprises' corporate training and corporate implementation guidance work etc..

  During the last year, the company also made plentiful attempts on the electronic monitoring of other products, such as agricultural resources and food, and gained certain achievements and experience. However, the company is unable to carry out full promotion in these areas as the relevant authorities in the PRC have not further issued supplemental work rules.

## BUSINESS REVIEW (Continued)

- **PIATS Business (Continued)**

**Future prospect**

The gradual advancement of electronic monitoring has already evidenced that the government will make electronic monitoring an important tool for increasing management. Recently, the relevant authorities in the PRC has commenced preparing to extend the electronic monitoring to those national-declared basic drugs (Version 2012) of all types, under the existing implemented electronic monitoring basis of anaesthetics drugs, mental disorder drugs, blood products, Chinese medicine injections, vaccines and national-declared basic drugs (Version 2009) of all types. Moreover, the relevant authorities in the PRC has demanded the electronic monitoring of certain imported drugs as per above-mentioned categories, and to continue to further apply the electronic monitoring to other areas of drugs through stages. On the other hands, the relevant authorities in the PRC has commenced promoting gradually the working trainings to those medical and healthcare institutions other than drug production and distribution enterprises, and to include drug retailers in the pilot program under the electronic monitoring. Pinpointing the various issues of dairy products under food category, the relevant authorities in the PRC is attempting to establish an information tracking system through the application of similar informationalized measures. The company will leverage on the successful and accumulated experience on PIATS and promote to further its cooperation with the relevant authorities in the PRC, so as to strive for the expansion of the scope and coverage of the application of PIATS. The management has confidence that PIATS can combat counterfeit and poor-quality commodities, improve commodity 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.

## BUSINESS REVIEW (Continued)

- **HL95 (Continued)**

**Future prospect**

The rapid development of 3G, the development of 4G and mobile internet will continuously create good 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. Presently, HL95 is working on gaining new call centre business opportunities countrywide, for which HL95 has accumulated successful experience and has earned good reputation in the PRC. Since late 2009, HL95 has received several industry awards for its good achievement in call centre management and outsourcing contract. The rapid development of cross-platform messaging applications to be used by individual consumers will continue to impose pressure on HL95's SMS business. HL95's management will strive to look into other SMS business opportunities with enterprise customers so as to reduce the downside effect. Moreover, the traditional mobile IVRS and fixed line IVRS services will continue to be under challenge, with regulatory measures from time to time imposed by the telecom operators or the relevant authorities, and with fierce competition arisen from inherent competitive advantages possessed by telecom operators. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CITIC 21CN Technology and CCIT, 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. In the same time, HL95 is also intended to achieve to combine the PIATS business for transformation of services and expansion of new business. The Directors believe that HL95 has good potential in the call centre industry and at the same time can provide valuable support to PIATS.

- **Dongfang Customs**

Dongfang Customs, a joint venture with the PRC Customs Department and China Telecom, is engaged in electronic customs processing and other electronic government services. Dongfang Customs provides customs filing and declaration, identity authentication, online payments, electronic customs tax and foreign exchange filings, billing and other customs related services. Dongfang Customs' users principally 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.

**Future prospect**

The PRC government has been encouraging manufacturers and import/export corporations to perform the customs declaration processing electronically as it not only speeds up the customs declaration procedures but also helps minimise the handling costs involved in the declaration. Given that China is the manufacturing base for the world and Dongfang Customs will continue to look for new business opportunities in addition to its existing technical support, database management and hardware trading activities, the management considers that the business of Dongfang Customs under the Group's investment will still provide us with reasonable return.

## BUSINESS REVIEW (Continued)

- **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 2013 are detailed as follows:

| Location | Telecommunications/ information value-added services | PIATS business | System integration and software development | Corporate | Associate |
|---|---|---|---|---|---|
| – Hong Kong | – | – | – | 6 | – |
| – The PRC | 7,109 | 85 | 3 | – | 270 |
| Total | 7,109 | 85 | 3 | 6 | 270 |

Total staff costs of the Group for the year ended 31st March 2013 were HK$314,207,000. 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 2013, 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 2013.

## 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 34 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 36 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 17 to the consolidated financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 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 98 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

In accordance with Clauses 99 and 102 of the Bye-laws of the Company, Ms. Chen Xiao Ying, Mr. Luo Ning 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 Governing the Listing of Securities (the "Listing Rules") 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 23 to 24 of this annual report.

## CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Other than the share options as set out in note 32 to the consolidated financial statements, the Company had no outstanding convertible securities, options or other similar rights as at 31st March 2013. 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:

| | Date of grant | Exercise price HK$ | Exercise period | Number of options at 1st April 2012 and 31st March 2013 |
|---|---|---|---|---|
| **Directors** | | | | |
| Mr. Wang Jun | 23.3.2005 | 3.175 | 23.3.2006 to 23.3.2015 | 10,000,000 |
| | 23.3.2005 | 3.175 | 23.3.2007 to 23.3.2015 | 10,000,000 |
| | 23.3.2005 | 3.175 | 23.3.2008 to 23.3.2015 | 10,000,000 |
| Ms. Chen Xiao Ying | 24.6.2003 | 0.322 | 10.9.2004 to 23.6.2013 | 30,000,000 |
| | 24.6.2003 | 0.322 | 10.3.2005 to 23.6.2013 | 30,000,000 |
| | 24.6.2003 | 0.322 | 10.9.2005 to 23.6.2013 | 30,000,000 |
| Mr. Luo Ning | 24.6.2003 | 0.322 | 24.6.2004 to 23.6.2013 | 3,333,333 |
| | 24.6.2003 | 0.322 | 24.12.2004 to 23.6.2013 | 3,333,333 |
| | 24.6.2003 | 0.322 | 24.6.2005 to 23.6.2013 | 3,333,334 |
| Mr. Sun Yalei | 24.6.2003 | 0.322 | 24.6.2004 to 23.6.2013 | 3,333,333 |
| | 24.6.2003 | 0.322 | 24.12.2004 to 23.6.2013 | 3,333,333 |
| | 24.6.2003 | 0.322 | 24.6.2005 to 23.6.2013 | 3,333,334 |
| Mr. Zhang Lianyang | 24.6.2003 | 0.322 | 24.6.2004 to 23.6.2013 | 5,000,000 |
| | 24.6.2003 | 0.322 | 24.12.2004 to 23.6.2013 | 5,000,000 |
| | 24.6.2003 | 0.322 | 24.6.2005 to 23.6.2013 | 5,000,000 |
| | | | | 155,000,000 |

## SHARE OPTION (Continued)

| | Date of grant | Exercise price HK$ | Exercise period | Number of options at 1st April 2012 and 31st March 2013 |
|---|---|---|---|---|
| **Employees** | 2.3.2005 | 2.525 | 2.9.2005 to 1.3.2015 | 200,000 |
| | 2.3.2005 | 2.525 | 2.9.2006 to 1.3.2015 | 200,000 |
| | 2.3.2005 | 2.525 | 2.3.2008 to 1.3.2015 | 200,000 |
| | 23.3.2005 | 3.175 | 23.3.2006 to 22.3.2015 | 200,000 |
| | 23.3.2005 | 3.175 | 23.3.2007 to 22.3.2015 | 200,000 |
| | 23.3.2005 | 3.175 | 23.3.2008 to 22.3.2015 | 200,000 |
| | 23.3.2005 | 3.175 | 23.3.2009 to 22.3.2015 | 200,000 |
| | 23.3.2005 | 3.175 | 23.3.2010 to 22.3.2015 | 200,000 |
| | | | | 1,600,000 |
| | | | | 156,600,000 |

The share options granted are recognised in the consolidated financial statements in accordance with the accounting policies 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 2013, 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)** | **Share options (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 100% 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 2013, 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 Corporation (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 100% 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. hold 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC Group Corporation (previously known as "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 Company Limited*) ("CITIC 21CN Technology") as the lender and 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited*) ("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.

The Loan was further renewed for a term of 2 years to 15th April 2014 under a renewal loan agreement (the "CITIC 21CN Technology Renewal Loan Agreement") between CITIC 21CN Technology and CCIT dated 23rd November 2010 (the "CITIC 21 CN Technology Renewal Loan").

CITIC 21CN Technology as the lender and CCIT as the borrower also entered into a second loan agreement (the "Second Loan Agreement") on 23rd November 2010 in relation to a non-interest bearing and unsecured loan of RMB30,000,000 (the "Second Loan") with particulars as follows:

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

(b) the term of the Second Loan has commenced from the respective dates of drawdown and repayable on 15th April 2014;

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

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

As at 31st March 2013, CCIT has drawn RMB20,000,000 and RMB19,000,000 from the Loan and the Second Loan respectively.

* for identification purpose only

## CONNECTED TRANSACTIONS (Continued)

As at 31st March 2013, CCIT is owned as to 50%, 30% and 20% by the Company, CITIC Group Corporation and 中國華信郵電經濟開發中心 (China Huaxin Telecom Economic Development Centre*) respectively, and CITIC Group Corporation 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, the CITIC 21CN Technology Renewal Loan, the CITIC 21CN Technology Renewal Loan Agreement, the Second Loan, the Second Loan Agreement and all the transactions contemplated thereunder in accordance with the Bye-Laws and the Listing Rules during special general meetings of the Company held on 31st August 2009 and 29th December 2010 respectively ("SGMs").

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 (the "Renewal Loan Agreement") between CITIC 21CN Telecom and CCIT dated 22th May 2008 (the "Renewal Loan"). CITIC 21CN Telecom Loan was further renewed for a term of approximately 3.1 years to 15th April 2014 under the second renewal loan agreement (the "Second Renewal Loan Agreement") between CITIC 21CN Telecom and CCIT dated 23rd November 2010 (the "Second Renewal Loan").

As at 31st March 2013, the aggregate loan amount, including the CITIC 21CN Technology Renewal Loan, the Second Loan and the Second Renewal Loan, is approximately RMB82,056,000.

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 38 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 37 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchase attributable to the Group's five largest suppliers were less than 30% of total. The aggregate turnover during the year attributable to the Group's five largest customers was 83% of the total turnover of the Group, of which 43% 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 32 to the consolidated financial statements.

## ARBITRATION AND LITIGATION

Details of arbitration and litigation are set out in note 39 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 25 to 32 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 2013 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 25 to 32 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, 27th June 2013

# THE BIOGRAPHICAL INFORMATION OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Wang Jun**, aged 72, 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 50, 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 54, is the Vice Chairman of the Company. He is currently an Assistant President of CITIC Limited, 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, both of 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 45, is an Assistant President of CITIC Limited, Vice Chairman and President of CITIC Guoan Group. He is also serving as 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 68, 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 50, 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, J.P**., aged 55, holds an Honorary Degree of Doctor of Philosophy awarded by Armstrong University and Bachelor's Degree in Laws from Hong Kong University. He has over 20 years' experience in merchant banking, securities regulation as well as extensive commercial and corporate finance experience. Dr. Hui serves on the boards of a number of publicly listed companies in Hong Kong as well as public bodies. He is currently an Executive Director and Deputy Chairman of Cypress Jade Agricultural Holdings Limited. He is also a Non-Executive Director of Hong Kong Resources Holdings Company Limited, and an Independent Non-Executive Director on the boards of the Company and Dynasty Fine Wines Group Limited, all these companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Furthermore, Dr. Hui is a member of the board of directors of Automotive Parts and Accessory Systems Research and Development Centre. He is also a member of the Hong Kong Education Bureau's Vetting Committee for the Allocation of Sites and Start-up Loan for Post-secondary Education Providers and Steering Committee on Self-financing Post-secondary Education Fund. Dr. Hui held the position as Deputy Chief Executive and Head of the Listing Division of the Stock Exchange from 1992 to 1997. He was a past Chairman of the Hong Kong Institute of Directors and 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 52, 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 56, 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. AU Kin Fai**, aged 47, is a member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor Degree in Commerce. Mr. Au worked for an international CPA firm and a public company listed on the Hong Kong Stock Exchange prior to his first joining of the Group in January 2007. Mr. Au was appointed as Company Secretary in September 2010.

# CORPORATE GOVERNANCE REPORT

In the opinion of the Directors, throughout the year ended 31st March 2013, 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. The Chairman of the Board of the Company did not attend the annual general meeting of the Company held on 30th August 2012. However, Ms. Chen Xiao Ying (Executive Vice Chairman), Mr. Zhang Lianyang (Executive Director) and Dr. Hui Ho Ming, Herbert, JP (Independent Non-Executive Director) attended the meeting. The meeting was conducted in a good and proper manner.

3. The Company 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. The Board considers that the present arrangement provides the Company with more flexibility to identify individuals suitably qualified to become board members for the innovatively developing business. The Board will be reviewing, and when necessary, the relevant provision of the Company's Bye-Laws, to ensure full compliance with Code Provision A.5.1 of the CG Code.

4. The Company has not yet arranged insurance cover in respect of legal action against its directors. However, the Board will continue to review the arrangements for appropriate insurance cover for its directors from time to time, and may arrange for insurance cover in the future.

## 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 23 to 24 of this Annual Report.

All Directors, including INEDs, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. INEDs are invited to serve on the Audit Committee and the Remuneration Committee.

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.

## THE BOARD (Continued)

### 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, corporate governance standard review 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 INEDs play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. They bring an impartial view on issues of the Company's strategies, performance and control.

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.

### Chairman and Chief Executive Officer

There is segregation of duties between Chairman and CEO. The segregation of duties ensures balance of power between the Board and Group's management as well as their independence and accountability.

The Chairman is the leader of Board and he oversees the Board so that it acts in best interests of the Group. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The CEO, assisted by the management team, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of polices, and assumes full accountability to the Board for all operations of the Group. Working with the Chairman and the management team of each core business division, she ensures smooth operations and development of the Group. She also maintains continuing dialogue with the Chairman and all directors to keep them fully informed of all major business development and issues.

## THE BOARD (Continued)

### Meetings

The Board held four regular Board meetings at approximately quarterly interval during the year ended 31st March 2013 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, Board Committee meetings and Shareholder meeting(s) during the year ended 31st March 2013 are set out in the table below:

| | Attendants/Number of Meetings | | | |
|---|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** | **Annual General Meeting** |
| *Executive Directors* | | | | |
| Mr. Wang Jun *(Chairman)* | 4/4 | – | – | 0/1 |
| Ms. Chen Xiao Ying *(Executive Vice Chairman)* | 4/4 | – | – | 1/1 |
| Mr. Luo Ning *(Vice Chairman)* | 4/4 | – | – | 0/1 |
| Mr. Sun Yalei | 4/4 | – | – | 0/1 |
| Mr. Zhang Lianyang | 4/4 | – | – | 1/1 |
| Ms. Xia Guilan | 4/4 | – | – | 0/1 |
| *Independent Non-Executive Directors* | | | | |
| Dr. Hui Ho Ming, Herbert, JP | 4/4 | 2/2 | 1/1 | 1/1 |
| Mr. Zhang Jian Ming | 3/4 | 2/2 | 1/1 | 0/1 |
| Dr. Long Junsheng | 4/4 | 2/2 | 1/1 | 0/1 |

### Directors' Training

Each newly-appointed director will be offered training by the Company upon the appointment, so as to ensure that they have appropriate understanding of the Company's business and they are aware of their duties as directors under the applicable laws and regulations.

The Company has continuously provided relevant training materials to the Directors. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant. Directors are requested to provide their records of trainings they received during the financial year to the Company for record.

## THE BOARD (Continued)

### Directors' Training (Continued)

Details of training that Directors participated during the financial year were as follows:

| | Attend training or seminar relevant to the Company's industry and business, director's duties and/or corporate governance | Read Information relevant to the Company's industry and business, director's duties and/or corporate governance; and/or read regular updates issued by the Company |
|---|---|---|
| *Executive Directors* | | |
| Mr. Wang Jun *(Chairman)* | ✓ | ✓ |
| Ms. Chen Xiao Ying *(Executive Vice Chairman)* | | ✓ |
| Mr. Lou 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 | | ✓ |

### Board Committees

For the year ended 31st March 2013, the Board established two committees, namely, the Remuneration Committee and the Audit Committee, to oversee corresponding aspects of the Company's affairs.

### Remuneration Committee

For the year ended 31st March 2013, the Company has set up a Remuneration Committee with specific written terms of reference which clearly deal with its authorities and duties. The Remuneration Committee comprises three independent Non-Executive Directors, namely Dr. Long Junsheng, Dr. Hui Ho Ming, Herbert, JP and Mr. Zhang Jian Ming. Dr. Long Junsheng is the Chairman of the Committee. The main duties of the Remuneration Committee shall include:

(a) to make recommendations to the Board on the Company's policy and structure for all directors of the Company and senior management remuneration and on establishment of a formal and transparent procedure for developing remuneration policy;

(b) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments, and make recommendations to the Board on the remuneration of non-executive directors; and

## THE BOARD (Continued)

### Remuneration Committee (Continued)

(c) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee held one meeting for the year ended 31st March 2013.

### Audit Committee

For the year ended 31st March 2013, the Company has set up an Audit Committee with specific written terms of reference which clearly deal with its authorities and duties. The Audit Committee comprises three Independent Non-Executive Directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Dr. Long Junsheng. 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 2013.

### 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.

## COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company. The Company Secretary supports the daily operation of the Board by ensuring good information flow and reports to the Board in an effective and efficient manner. All directors of the Company can access to opinions of the Company Secretary in respect to their duties under the applicable laws and regulations. The biographical detail of the Company Secretary is disclosed on page 24 of this Annual Report. The Company Secretary met the requirements on professional training under the Rule 3.29 of the Listing Rules during the financial year.

## AUDITORS' REMUNERATION

The remuneration paid to Deloitte Touche Tohmatsu for audit and non-audit services for the year ended 31st March 2013 amounted to HK$1,720,000 and HK$76,500 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 POLICY

### Purpose

1. This policy aims to set out the provisions with the objective of ensuring that CITIC 21CN Company Limited's (the "Company") shareholders, both individual and institutional (collectively, "Shareholders"), and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

### Communication Strategies

#### Corporate Website

2. The Company communicates to its Shareholders through announcements, interim and annual reports published on its website http://www.irasia.com/listco/hk/citic21cn/ and the information on the website is updated on a regular basis.

3. Information released by the Company to Hong Kong Exchanges and Clearing Limited (the "HKEx") is also posted on the HKEx website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.

#### Shareholders' meetings

4. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.

5. The process of the Company's general meetings will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.

6. Board members, in particular, either the chairman or deputy chairman of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions.

## SHAREHOLDER COMMUNICATION POLICY (Continued)

### Shareholder Privacy

7. The Company recognises the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by law to do so.

## SHAREHOLDERS' RIGHTS

### Procedures for shareholders to convene a special general meeting

Shareholders, holding at the date of the requisition not less than 10% of the paid-up capital of the Company carrying the right to vote at general meetings of the Company, shall at all times have the right by written requisition to the Board or the company secretary, to require a general meeting (the "SGM") to be called by the Board for the transaction of any business specified in such requisition.

The requisitionists must state the purpose of the meeting and contact details in the requisition, sign and deposit the requisition at the principal place of business of the Company for the attention of the company secretary.

The SGM shall be held within two months from the deposit of the requisition. It the Board fails to proceed to convene the SGM within 21 days of such deposit, the requisitionists, or any of them representing more than 50% of the total voting rights of all of them, may convene the SGM by themselves in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (as amended), but any SGM so convened shall not be held after the expiration of three months from the deposit of the requisition.

### Procedures for putting forward proposals at general meetings

Shareholders holding not less than 5% of the total voting rights of all shareholders having a right to vote at the general meeting or not less than 100 shareholders can submit a written request stating a resolution to be moved at the AGM or a statement of not more than 1,000 words with respect to a matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The requistionists must sign and deposit the written request or statement at the registered office of the Company and the principal place of business of the Company for the attention of the company secretary, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the company secretary will ask the Board to include the resolution in the agenda for the AGM, as the case may be, to circulate the statement for the general meeting, provided that the requisitionists have deposited a sum of money reasonably determined by the Board sufficient to meet the expenses in serving the notice of the resolution and/or circulating the statement submitted by the requisitionists in accordance with the statutory requirements to all the registered shareholders.

### Procedures for sending enquires to the Board

Shareholders may send their enquiries with sufficient contact details to the Board at the principal place of the business of the Company for the attention of the company secretary. When the written enquiries are in order, the company secretary will direct them to the Board.

# CORPORATE GOVERNANCE REPORT

## CONSTITUTIONAL DOCUMENTS

There was no significant change to the Company's Bye-Laws or Memorandum of Association during the financial year.

## 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 33.

# 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 34 to 97, which comprise the consolidated statement of financial position as at 31st March 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 of the consolidated financial statements that give a true and fair view 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 2013, 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
27th June 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Turnover | 7 | **489,885** | 481,663 |
| Cost of sales and services | | **(418,502)** | (426,744) |
| Gross profit | | **71,383** | 54,919 |
| Other income, gains and losses | 9 | **(805)** | (5,699) |
| Administrative expenses | | **(111,937)** | (88,474) |
| Impairment losses recognised in respect of PIATS business (defined in note 1) | 19 | **–** | (7,808) |
| Share of profit of an associate | 20 | **1,962** | 19,172 |
| Reversal of accrued interest and related expenses in connection with arbitration and litigation | 39 | **–** | 26,271 |
| Interest expenses | 10 | **(668)** | (939) |
| Loss before taxation | | **(40,065)** | (2,558) |
| Taxation | 11 | **(1,279)** | (5,178) |
| Loss for the year | 12 | **(41,344)** | (7,736) |
| Other comprehensive income for the year: | | | |
| Exchange differences arising on translation of foreign operations | | **4,201** | 4,289 |
| Total comprehensive expense for the year | | **(37,143)** | (3,447) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(41,344)** | (7,735) |
| Non-controlling interests | | **–** | (1) |
| | | **(41,344)** | (7,736) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(37,143)** | (3,446) |
| Non-controlling interests | | **–** | (1) |
| | | **(37,143)** | (3,447) |
| | | **HK cents** | HK cents |
| Loss per share | | | |
| – Basic and diluted | 16 | **(1.11)** | (0.21) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 17 | **51,575** | 72,031 |
| Intangible assets | 18 | **39,157** | 42,622 |
| Interest in an associate | 20 | **97,471** | 93,170 |
| Loans receivable | 21 | **–** | 45,465 |
| Available-for-sale investments | 22 | **9,375** | 9,150 |
| | | **197,578** | 262,438 |
| Current assets | | | |
| Amounts due from customers for contract work | 23 | **949** | 2,940 |
| Debtors and prepayments | 24 | **96,497** | 96,764 |
| Investments held for trading | 25 | **27,491** | 41,565 |
| Fixed deposit held at a bank with maturity over three months | 26 | **11,063** | – |
| Bank balances and cash | 26 | **123,885** | 133,813 |
| | | **259,885** | 275,082 |
| Current liabilities | | | |
| Creditors and accruals | 27 | **159,261** | 120,265 |
| Taxation payable | | **338** | 2,178 |
| Short-term bank loans | 28 | **6,125** | 11,956 |
| | | **165,724** | 134,399 |
| Net current assets | | **94,161** | 140,683 |
| Total assets less current liabilities | | **291,739** | 403,121 |
| Non-current liability | | | |
| Deferred taxation | 29 | **4,348** | 4,152 |
| | | **287,391** | 398,969 |
| Capital and reserves | | | |
| Share capital | 30 | **37,179** | 37,179 |
| Reserves | | **324,638** | 361,781 |
| | | **361,817** | 398,960 |
| Non-controlling interests | | **(74,426)** | 9 |
| Total equity | | **287,391** | 398,969 |

The financial statements on pages 34 to 97 were approved and authorised for issue by the Board of Directors on 27th June 2013 and are signed on its behalf by:

| | |
|---|---|
| **Chen Xiao Ying** | **Zhang Lian Yang** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2013

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Capital reserve** HK$'000 (note 32) | **Contributed surplus** HK$'000 (note 32) | **Translation reserve** HK$'000 | **Share options reserve** HK$'000 | **General reserve** HK$'000 (note 32) | **Accumulated losses** HK$'000 | **Total** HK$'000 | **Non-controlling interests** HK$'000 | **Total** HK$'000 |
| At 1st April 2011 | 37,179 | 769,675 | 19,215 | 78,108 | 68,940 | 21,181 | 11,851 | (603,743) | 402,406 | 10 | 402,416 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 4,289 | – | – | – | 4,289 | – | 4,289 |
| Loss for the year | – | – | – | – | – | – | – | (7,735) | (7,735) | (1) | (7,736) |
| Total comprehensive income (expense) for the year | – | – | – | – | 4,289 | – | – | (7,735) | (3,446) | (1) | (3,447) |
| Transfers | – | – | – | – | – | – | 1,080 | (1,080) | – | – | – |
| Forfeiture of share options | – | – | – | – | – | (350) | – | 350 | – | – | – |
| At 31st March 2012 | 37,179 | 769,675 | 19,215 | 78,108 | 73,229 | 20,831 | 12,931 | (612,208) | 398,960 | 9 | 398,969 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 4,201 | – | – | – | 4,201 | – | 4,201 |
| Loss for the year | – | – | – | – | – | – | – | (41,344) | (41,344) | – | (41,344) |
| Total comprehensive income (expense) for the year | – | – | – | – | 4,201 | – | – | (41,344) | (37,143) | – | (37,143) |
| Transfers | – | – | – | – | – | – | 502 | (502) | – | – | – |
| Reserve released upon dissolution of a subsidiary | – | – | – | – | (1,892) | – | – | 1,892 | – | – | – |
| Reserve released upon deemed disposal of a joint venture | – | – | – | – | (678) | – | – | 678 | – | – | – |
| Deemed acquisition of a subsidiary (note 34) | – | – | – | – | – | – | – | – | – | (74,435) | (74,435) |
| At 31st March 2013 | 37,179 | 769,675 | 19,215 | 78,108 | 74,860 | 20,831 | 13,433 | (651,484) | 361,817 | (74,426) | 287,391 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March 2013

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Operating activities | | |
| Loss before taxation | **(40,065)** | (2,558) |
| Adjustments for: | | |
| Interest income from bank deposits | **(1,409)** | (734) |
| Imputed interest income on loans receivable | **(1,660)** | (1,500) |
| Dividends from listed equity securities | **(919)** | (837) |
| Interest expenses | **668** | 939 |
| Share of profit of an associate | **(1,962)** | (19,172) |
| Depreciation | **24,690** | 24,425 |
| Amortisation of intangible assets | **4,404** | 4,404 |
| Reversal of allowance for doubtful debts | **(167)** | (6) |
| Change in value of loans receivable upon initial recognition | **90** | 432 |
| Impairment loss recognised in respect of property, plant and equipment | **–** | 2,919 |
| Impairment loss recognised in respect of intangible assets | **–** | 4,889 |
| Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary | **11,492** | – |
| Loss on disposal of property, plant and equipment | **64** | 81 |
| Reversal of accrued interest and related expenses in connection with the arbitration and litigation | **–** | (26,271) |
| Written-back of long outstanding trade payables | **–** | (836) |
| Recovery of amounts previously written off | **829** | – |
| Operating cash flows before movements in working capital | **(3,945)** | (13,825) |
| Decrease in amounts due from customers for contract work | **1,234** | 1,252 |
| (Increase) decrease in debtors and prepayments | **(12,797)** | 7,475 |
| Decrease in investments held for trading | **14,074** | 8,660 |
| Increase in creditors and accruals | **6,340** | 6,418 |
| Cash from operations | **4,906** | 9,980 |
| Interest received | **1,409** | 734 |
| Dividends received from listed equity securities | **919** | 837 |
| Taxation paid | **(2,985)** | (1,404) |
| Net cash from operating activities | **4,249** | 10,147 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March 2013

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Investing activities | | | |
| Dividends received from an associate | | **18,300** | – |
| Net cash inflow from deemed disposal of a joint venture and deemed acquisition of a subsidiary | 34 | **452** | – |
| Proceeds from disposal of property, plant and equipment | | **110** | 431 |
| Purchase of property, plant and equipment | | **(14,681)** | (21,432) |
| Placement of fixed deposit held at a bank with maturity over three months | | **(11,063)** | – |
| Loan advanced | | **(1,875)** | (4,880) |
| Net cash used in investing activities | | **(8,757)** | (25,881) |
| Financing activities | | | |
| Repayment of short-term bank loans | | **(11,956)** | (23,912) |
| Interest paid | | **(668)** | (939) |
| New short-term bank loans raised | | **5,978** | 11,956 |
| Net cash used in financing activities | | **(6,646)** | (12,895) |
| Decrease in cash and cash equivalents | | **(11,154)** | (28,629) |
| Cash and cash equivalents at beginning of the year | | **133,813** | 160,335 |
| Effect of foreign exchange rate changes | | **1,226** | 2,107 |
| Cash and cash equivalents at end of the year, representing bank balances and cash | | **123,885** | 133,813 |

## 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 registered office and principal place of business of the Company is 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 ("RMB"). The reason for selecting Hong Kong dollars ("HK$") as 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKAS 12 | Deferred tax: Recovery of underlying assets |
| Amendments to HKFRS 7 | Financial instruments: Disclosures – Transfers of financial assets |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009-2011 cycle[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting financial assets and financial liabilities[1] |
| Amendments to HKFRS 7 and HKFRS 9 | Mandatory effective date of HKFRS 9 and transition disclosures[3] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities[2] |
| HKFRS 9 | Financial instruments[3] |
| HKFRS 10 | Consolidated financial statements[1] |
| HKFRS 11 | Joint arrangements[1] |
| HKFRS 12 | Disclosure of interests in other entities[1] |
| HKFRS 13 | Fair value measurement[1] |
| HKAS 19 (as revised in 2011) | Employee benefits[1] |
| HKAS 27 (as revised in 2011) | Separate financial statements[1] |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures[1] |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income[4] |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities[2] |
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets[2] |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine[1] |
| HK(IFRIC) – INT 21 | Levies[2] |

1 Effective for annual periods beginning on or after 1st January 2013.

2 Effective for annual periods beginning on or after 1st January 2014.

3 Effective for annual periods beginning on or after 1st January 2015.

4 Effective for annual periods beginning on or after 1st July 2012.

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

### HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January 2015, with earlier application permitted.

The directors of the Company anticipate that the application of HKFRS 9 for annual period beginning 1st April 2015 will affect the classification and measurement of the available-for-sale investments but do not expect the application of HKFRS 9 will have material impact on the amounts reported in respect of the Group's other financial assets and financial liabilities based on the Group's financial instruments reported at the end of the reporting period.

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

### New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – INT 13 "Jointly controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1st April 2013. Currently, the Group's investment in Beijing Honglian 95 Information Industries Company Limited 北京鴻聯九五信息產業有限公司 ("HL 95"), which is classified as a jointly controlled entity under HKAS 31 and accounted for using the proportionate consolidation method. Under HKFRS 11, HL 95 will be classified as a joint venture and accounted for using the equity method, resulting in the aggregation of the Group's proportionate share of HL 95's respective net assets and items of profit or loss into a single line item which will be presented in the consolidated statement of financial position and in the consolidated statement of comprehensive income as "interest in a joint venture" and "share of profit of a joint venture", respectively. The directors of the Company anticipate that there will be no material impact on the Group's loss for the year under equity method and under proportionate consolidation method. The summarised financial information in respect of HL 95 is disclosed in note 33.

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

### HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

The directors of the Company anticipate that the application of the new standard for annual period beginning 1st April 2013 may affect the amount reported in the consolidated financial statements in relation to the available-for-sale investments and result in more extensive disclosures in the consolidated financial statements.

### Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 will be adopted for annual period beginning 1st April 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that 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.

Income and expenses 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 intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

### Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### 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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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 profit or loss and other comprehensive income 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. Additional losses are 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, which is included within the carrying amount of the investment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Interest in an associate (Continued)

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, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are related to the Group.

### 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, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 to 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.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

### Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### 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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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 other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment losses on tangible and intangible asset other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) 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 (or a CGU) 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 'loss before taxation' 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 temporary 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 differences 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

Deferred tax assets and liabilities are measured 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.

Current and 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 current and 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 lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is unclear that both elements are operating leases in which the case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are reallocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 debt instrument 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 debt instrument, 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 a portfolio of identified 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

***Financial assets at FVTPL (Continued)***

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 and is included in the "other gains and losses" in the consolidated statement of comprehensive income.

***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 debtors and other receivables, loans receivable, fixed deposit held at a bank with maturity over three months and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

***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.

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 are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

***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 considered to be 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 an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For other financial assets, the objective evidence of impairment could include:

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

***Impairment of financial assets (Continued)***

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments (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 (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Financial liabilities***

Financial liabilities including bank loans and creditors and other payables are subsequently measured at amortised cost, using the effective interest method.

#### Derecognition

The Group derecognises when a financial asset only when the contractual right to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not 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. Exchange differences arising on retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group 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. 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 under the heading of translation reserve.

### Share-based payment transactions

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

***Share options granted to employees on or before 7th November 2002, or granted after 7th November 2002 and vested before 1st January 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 to employees of the Company after 7th November 2002 and vested on or after 1st January 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 original estimates during the vesting period, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to accumulated losses.

### Retirement benefit cost

Payments to the state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme which are defined contribution plans are recognised 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 actual result is different or the management's expectation changes, the carrying value and write downs of property, plant and equipment and intangible assets will be affected in the periods in which such estimate is changed. At 31st March 2013, the carrying amount of property, plant and equipment and intangible assets are HK$51,575,000 (2012: HK$72,031,000) and HK$39,157,000 (2012: HK$42,622,000), respectively (net of accumulated impairment losses of HK$16,628,000 (2012: HK$16,628,000) and HK$21,196,000 (2012: HK$21,196,000), respectively.

### 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 2013, the carrying amount of trade receivables is HK$73,330,000 (2012: HK$63,640,000) (net of allowance for doubtful debts of HK$26,954,000 (2012: HK$26,470,000)).

### Income taxes

As at 31st March 2013, no deferred tax asset was recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of HK$297,428,000 (2012: HK$264,347,000) 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, it may lead to utilisation of tax losses and recognition of deferred tax asset, which would be recognised in profit or loss for the period in which such utilisation and recognition take place.

### Provision for litigation

The Group is involved in legal proceedings as disclosed in note 39 to the consolidated financial statements. The management has evaluated and assessed the claims made against the Group based on legal advice received and information presently available and are of the view that an adequate provision has been made in the consolidated financial statements in relation to the Oracle Licence and Service Agreement as defined in note 39.

## 5. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Financial assets | | |
| Investments held for trading | **27,491** | 41,565 |
| Loans and receivables (including cash and cash equivalents) | **212,926** | 263,418 |
| Available-for-sale investments | **9,375** | 9,150 |
| | **249,792** | 314,133 |
| Financial liabilities | | |
| Amortised cost | **101,359** | 105,379 |

### Financial risk management objectives and policies

The Group's major financial instruments include trade receivables and other receivables, available-for-sale investments, investments held for trading, loans receivable, fixed deposit held at a bank with maturity over three months, bank balances and cash, trade payables and other payables 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.

### 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 end of the reporting period are as follows:

| | **Assets** | |
|---|---|---|
| | **2013** **HK$'000** **equivalent** | 2012 HK$'000 equivalent |
| United States Dollars ("USD") against HK$ | **43,998** | 22,182 |
| USD against RMB | **33,530** | 71,418 |

## 5. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Market risk (Continued)**

***Currency risk (Continued)***

*Sensitivity analysis*

The Group is mainly exposed to the foreign exchange risk of USD against RMB. Exposures on balances which are denominated in USD in group companies against HK$ as functional currency are not considered significant as HK$ is pegged to USD.

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB against USD. 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 end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss for the year 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.

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **1,677** | 3,571 |

***Interest rate risk***

The Group's fair value interest rate risk relates primarily to fixed-rate fixed deposit held at a bank with maturity over three months (see note 26) and fixed-rate bank loans (see note 28 for details of these borrowings). However, the management considered the relevant risks are insignificant due to short term nature.

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances (See note 26 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 period 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 25. The management has closely monitored 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 period.

If the prices of the respective listed equity instruments had been 20% (2012: 20%) higher/lower, loss for the year ended 31st March 2013 will decrease/increase by HK$5,498,000 (2012: decrease/increase by HK$8,313,000) 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 debtors as at 31st March 2013 and loans receivable and debtors as at 31st March 2012, 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 as at 31st March 2012. 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 concentration of credit risk as 21% and 39% (2012: 22% and 39%) of the total trade receivables was due from the Group's largest customer and the three largest customers respectively within the telecommunication/information value-added services segment, respectively.

The credit risk in relation to bank balances and cash is limited because the majority of the counterparties are 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").

## 5. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**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 of the Group 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. 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 maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

***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$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.3.2013 HK$'000 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | - | 95,234 | - | - | 95,234 | 95,234 |
| Bank loans – fixed rate | 6.30% | 32 | 64 | 6,339 | 6,435 | 6,125 |
| | | 95,266 | 64 | 6,339 | 101,669 | 101,359 |

| | 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$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.3.2012 HK$'000 |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | – | 93,423 | – | – | 93,423 | 93,423 |
| Bank loans – fixed rate | 7.87% | 77 | 157 | 12,209 | 12,443 | 11,956 |
| | | 93,500 | 157 | 12,209 | 105,866 | 105,379 |

## 5. FINANCIAL INSTRUMENTS (Continued)

### 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.

### 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).

| | 31st March 2013 | | | |
|---|---|---|---|---|
| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| Financial assets at FVTPL: | | | | |
| Investments held for trading | | | | |
| – Listed equity securities | **27,491** | **–** | **–** | **27,491** |

## 5. FINANCIAL INSTRUMENTS (Continued)

### Fair value measurements recognised in the consolidated statement of financial position (Continued)

| | 31st March 2012 | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| Financial assets at FVTPL: | | | | |
| Investments held for trading | | | | |
| – Listed equity securities | 41,565 | – | – | 41,565 |

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

## 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.

## 7. TURNOVER

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| An analysis of the Group's turnover is as follows: | | |
| Telecommunications/information value-added services | **473,648** | 470,671 |
| PIATS business | **12,816** | 9,741 |
| System integration and software development | **3,421** | 1,251 |
| | **489,885** | 481,663 |

## 8. SEGMENT INFORMATION

Information reported to the Executive Vice-Chairman, the Group's chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on services provided.

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 PIATS, and system integration and software development. These divisions are the basis on which the Group reports its segment information. For the telecommunications/information value-added services and PIATS business divisions, information reported to the Executive Vice-Chairman includes the financial information of its joint ventures prepared on a proportionate consolidation basis. On 28th March 2013, the Group obtained control over China Credit Information Technology Company Limited 中信國檢信息技術有限公司 ("CCIT"), the then joint venture (see note 34). The financial information of CCIT is reported on a full consolidation basis subsequent to 28th March 2013.

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 in drugs and other consumer products industries |
| 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 and reportable segments:

| | Segment revenue | | Segment profit (loss) | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Telecommunication/information value-added services | **473,648** | 470,671 | **9,993** | 6,838 |
| PIATS business | **12,816** | 9,741 | **(32,805)** | (28,119) |
| System integration and software development | **3,421** | 1,251 | **921** | (425) |
| Total | **489,885** | 481,663 | **(21,891)** | (21,706) |
| Other income, gains and losses | | | **(805)** | (5,699) |
| Share of profit of an associate | | | **1,962** | 19,172 |
| Interest expenses | | | **(668)** | (939) |
| Reversal of accrued interest and related expenses in connection with litigation and arbitration | | | **–** | 26,271 |
| Unallocated expenses | | | **(18,663)** | (19,657) |
| Loss before taxation | | | **(40,065)** | (2,558) |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the both years.

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 income, gains and losses, interest expenses and reversal of accrued interest and related expenses in connection with litigation and arbitration. 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

The following is an analysis of the Group's assets and liabilities by operating and reportable segments.

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| ***Segment assets*** | | |
| Telecommunications/information value-added services | **130,380** | 115,293 |
| PIATS business | **54,109** | 67,736 |
| System integration and software development | **1,877** | 9,759 |
| Total segment assets | **186,366** | 192,788 |
| Interest in an associate | **97,471** | 93,170 |
| Loans receivable | **–** | 45,465 |
| Investments held for trading | **27,491** | 41,565 |
| Available-for-sale investments | **9,375** | 9,150 |
| Fixed deposit held at a bank with maturity over three months | **11,063** | – |
| Bank balances and cash | **123,885** | 133,813 |
| Dividend receivable from an associate | **–** | 18,300 |
| Other unallocated assets | **1,812** | 3,269 |
| Consolidated assets | **457,463** | 537,520 |
| ***Segment liabilities*** | | |
| Telecommunications/information value-added services | **48,529** | 34,090 |
| PIATS business | **93,118** | 68,758 |
| System integration and software development | **6,298** | 6,203 |
| Total segment liabilities | **147,945** | 109,051 |
| Short-term bank loans | **6,125** | 11,956 |
| Deferred taxation | **4,348** | 4,152 |
| Other unallocated liabilities | **11,654** | 13,392 |
| Consolidated liabilities | **170,072** | 138,551 |

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, fixed deposit held at a bank with maturity over three months, 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, deferred taxation and liabilities for which operating segments are jointly liable.

## 8. SEGMENT INFORMATION (Continued)

### Other segment information

**2013**

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

| | Tele-communications/ 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) | 4,821 | 9,860 | - | 14,681 | - | 14,681 |
| Depreciation | 10,167 | 13,343 | 2 | 23,512 | 1,178 | 24,690 |
| Amortisation of intangible assets | - | 4,404 | - | 4,404 | - | 4,404 |
| Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary (note 34) | - | - | - | - | 11,492 | 11,492 |
| Loss on disposal of property, plant and equipment | 64 | - | - | 64 | - | 64 |

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

## 8. SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

**2012**

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

| | Tele-communications/ 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) | 16,987 | 4,441 | 4 | 21,432 | – | 21,432 |
| Depreciation | 10,599 | 12,619 | 11 | 23,229 | 1,196 | 24,425 |
| Amortisation of intangible assets | – | 4,404 | – | 4,404 | – | 4,404 |
| Impairment loss recognised in respect of property, plant and equipment | – | 2,919 | – | 2,919 | – | 2,919 |
| Impairment loss recognised in respect of intangible assets | – | 4,889 | – | 4,889 | – | 4,889 |
| Loss on disposal of property, plant and equipment | 81 | – | – | 81 | – | 81 |

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

### 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.

## 8. SEGMENT INFORMATION (Continued)

### Information about major customers

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

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Customer A[1] | **211,156** | 153,303 |
| Customer B[1] | **115,430** | 120,263 |
| Customer C[1,2] | **–** | 60,131 |

1 Revenues from telecommunication/information value-added services.

2 Customer C contributes less than 10% of the total sales of the Group during the year ended 31st March 2013.

## 9. OTHER INCOME, GAINS AND LOSSES

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Included in other income, gains and losses are the following items: | | |
| Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary (note 34) | **(11,492)** | – |
| Interest income from bank deposits | **1,409** | 734 |
| Imputed interest income on loans receivable | **1,660** | 1,500 |
| Dividends from listed equity securities | **919** | 837 |
| Change in fair value of investments held for trading | **6,091** | (8,660) |
| Change in value of loans receivable upon initial recognition (note 21) | **(90)** | (432) |
| Written-back of long outstanding trade payables | **–** | 836 |
| Net exchange gain (loss) | **418** | (520) |
| Reversal of allowance for doubtful debts | **167** | 6 |
| Others | **113** | – |
| | **(805)** | (5,699) |

## 10. INTEREST EXPENSES

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **(668)** | (939) |

## 11. TAXATION

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Current tax | | |
| – PRC Enterprise Income Tax – Jointly controlled entities | **1,029** | 1,228 |
| Underprovision in prior years | | |
| – PRC Enterprise Income Tax – Jointly controlled entities | **54** | – |
| Withholding tax on dividends | **–** | 1,830 |
| Deferred tax | | |
| – Current year (note 29) | **196** | 2,120 |
| | **1,279** | 5,178 |

No provision for Hong Kong Profits Tax has been made for both years as the Group did not derive taxable profits in Hong Kong in either year.

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%.

Pursuant to the relevant laws and regulations in the PRC, one of the jointly controlled entity of the Group operating in the PRC was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession rate of 15% for three years commenced from 1st January 2012.

## 11. TAXATION (Continued)

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

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Loss before taxation | (40,065) | (2,558) |
| Tax credit at the applicable tax rate of 25% (2012: 25%) | (10,016) | (640) |
| Tax effect of income that is not taxable for the tax purposes | (2,244) | (7,621) |
| Tax effect of share of profit of an associate | (491) | (4,793) |
| Tax effect of expenses that are not deductible for tax purposes | 7,013 | 9,955 |
| Tax effect of tax losses not recognised | 8,996 | 5,414 |
| Utilisation of tax losses previously not recognised | (890) | (332) |
| Effect of different tax rates of subsidiaries operating in Hong Kong | (476) | (116) |
| Underprovision of tax in prior years | 54 | – |
| Income tax at concessionary rate | (863) | (639) |
| Deferred taxation arising from withholding tax on undistributed profit of an associate | 196 | 3,950 |
| Taxation for the year | 1,279 | 5,178 |

## 12. LOSS FOR THE YEAR

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging (crediting): | | |
| Directors' and chief executive's remuneration (note 13) | 2,860 | 2,860 |
| Other staff's retirement benefits scheme contributions | 13,294 | 9,264 |
| Other staff costs | 298,053 | 230,457 |
| Total staff costs | 314,207 | 242,581 |
| Amortisation of intangible assets (included in cost of sales and services) | 4,404 | 4,404 |
| Auditor's remuneration | 2,330 | 2,384 |
| Depreciation | 24,690 | 24,425 |
| Loss on disposal of property, plant and equipment | 64 | 81 |
| Operating lease rentals in respect of buildings | 17,124 | 13,856 |
| Recovery of amount previously written off | (829) | – |
| Share of tax of an associate (included in share of profit of an associate) | 392 | 1,718 |

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 9 (2012: 9) directors and the chief executive were as follows:

| | Executive directors | | | | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mr. Wang Jun HK$'000 | Ms. Chen Xiao Ying HK$'000 | Mr. Luo Ning HK$'000 | Mr. Sun Yalei HK$'000 | Mr. Zhang Lian Yang HK$'000 | Ms. Xia Guilan HK$'000 | Dr. Hui Ho Ming, Herbert, JP HK$'000 | Mr. Zhang Jian Ming HK$'000 | Dr. Long Junsheng HK$'000 | 2013 Total HK$'000 |
| Fees | **1,000** | **-** | **-** | **-** | **-** | **-** | **360** | **-** | **200** | **1,560** |
| Other emoluments | | | | | | | | | | |
| – salaries and other benefits | **-** | **1,285** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,285** |
| – contributions to retirement benefits schemes | **-** | **15** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **15** |
| Total emoluments | **1,000** | **1,300** | **-** | **-** | **-** | **-** | **360** | **-** | **200** | **2,860** |

| | Executive directors | | | | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mr. Wang Jun HK$'000 | Ms. Chen Xiao Ying HK$'000 | Mr. Luo Ning HK$'000 | Mr. Sun Yalei HK$'000 | Mr. Zhang Lian Yang HK$'000 | Ms. Xia Guilan HK$'000 | Dr. Hui Ho Ming, Herbert, JP HK$'000 | Mr. Zhang Jian Ming HK$'000 | Dr. Long Junsheng HK$'000 | 2012 Total HK$'000 |
| Fees | 1,000 | – | – | – | – | – | 360 | – | 200 | 1,560 |
| Other emoluments | | | | | | | | | | |
| – salaries and other benefits | – | 1,288 | – | – | – | – | – | – | – | 1,288 |
| – contributions to retirement benefits schemes | – | 12 | – | – | – | – | – | – | – | 12 |
| Total emoluments | 1,000 | 1,300 | – | – | – | – | 360 | – | 200 | 2,860 |

Ms. Chen Xiao Ying also acts as the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

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

## 14. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2012: two) directors of the Company, whose emoluments are included in note 13 above. The aggregate emoluments of the remaining three (2012: three) highest paid individuals are as follows:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Salaries and allowances | **2,571** | 2,724 |
| Retirement benefits scheme contributions | **44** | 31 |
| | **2,615** | 2,755 |

The emoluments of the individuals fall within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2013** | 2012 |
| Nil to HK$1,000,000 | **2** | 2 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| | **3** | 3 |

## 15. DIVIDENDS

No dividend was paid or proposed during both years, nor has dividend been proposed since the end of both reporting periods (2012: HK$nil).

## 16. 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:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Loss for the purposes of basic and diluted loss per share | **(41,344)** | (7,735) |

### Number of ordinary shares

| | **2013** | 2012 |
|---|---|---|
| Number of ordinary shares for the purposes of basic and diluted loss per share | **3,717,869,631** | 3,717,869,631 |

For the years ended 31st March 2013 and 2012, the effect of the outstanding share options has not been taken into account in the calculation of diluted loss per share as their exercise would result in a decrease in loss per share for both years.

## 17. 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 2011 | 2,156 | 19,153 | 184,441 | 7,047 | 8,564 | 221,361 |
| Currency realignment | 54 | 235 | 4,588 | 113 | 216 | 5,206 |
| Additions | – | 2,519 | 6,373 | – | 12,540 | 21,432 |
| Disposals | – | – | (2,704) | (227) | – | (2,931) |
| Transfers | – | 10,183 | 6,493 | – | (16,676) | – |
| At 31st March 2012 | 2,210 | 32,090 | 199,191 | 6,933 | 4,644 | 245,068 |
| Currency realignment | 55 | 547 | 4,843 | 107 | 109 | 5,661 |
| Additions | – | 2,360 | 11,894 | – | 427 | 14,681 |
| Disposals | – | – | (2,084) | – | – | (2,084) |
| Derecognised on deemed disposal of a joint venture | – | (2,333) | (35,548) | (170) | – | (38,051) |
| Deemed acquisition of a subsidiary (note 34) | – | – | 21 | 34 | – | 55 |
| Transfers | – | 183 | 40 | – | (223) | – |
| At 31st March 2013 | **2,265** | **32,847** | **178,357** | **6,904** | **4,957** | **225,330** |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1st April 2011 | 1,203 | 15,006 | 121,552 | 6,989 | – | 144,750 |
| Currency realignment | 30 | 190 | 3,031 | 111 | – | 3,362 |
| Provided for the year | 53 | 3,089 | 21,255 | 28 | – | 24,425 |
| Impairment loss recognised | – | – | 2,919 | – | – | 2,919 |
| Eliminated on disposals | – | – | (2,192) | (227) | – | (2,419) |
| At 31st March 2012 | 1,286 | 18,285 | 146,565 | 6,901 | – | 173,037 |
| Currency realignment | 33 | 309 | 4,021 | 107 | – | 4,470 |
| Provided for the year | 53 | 4,092 | 20,533 | 12 | – | 24,690 |
| Eliminated on disposals | – | – | (1,910) | – | – | (1,910) |
| Derecognised on deemed disposal of a joint venture | – | (2,333) | (24,046) | (153) | – | (26,532) |
| At 31st March 2013 | **1,372** | **20,353** | **145,163** | **6,867** | **-** | **173,755** |
| CARRYING VALUES | | | | | | |
| At 31st March 2013 | **893** | **12,494** | **33,194** | **37** | **4,957** | **51,575** |
| At 31st March 2012 | 924 | 13,805 | 52,626 | 32 | 4,644 | 72,031 |

## 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land is located in the PRC and held under medium term leases.

During the year ended 31st March 2012, the Group carried out a review of the recoverable amount of its property, plant and equipment used in the Group's PIATS segment, having regard to the weaker and slower than expected development in the PIATS business. The review led to the recognition of an impairment loss of HK$2,919,000, that had been recognised in profit or loss. No impairment loss is recognised during the year ended 31st March 2013. Particulars regarding impairment assessment are disclosed in note 19.

Items of property, plant and equipment other than construction in progress are depreciated on a straight line basis less their residual values, 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 |

## 18. INTANGIBLE ASSETS

| | **Licence rights** HK$'000 |
|---|---|
| COST | |
| At 1st April 2011 | 85,921 |
| Currency realignment | 2,166 |
| At 31st March 2012 | 88,087 |
| Currency realignment | 2,166 |
| At 31st March 2013 | 90,253 |
| AMORTISATION AND IMPAIRMENT | |
| At 1st April 2011 | 35,282 |
| Currency realignment | 890 |
| Impairment loss recognised for the year | 4,889 |
| Provided during the year | 4,404 |
| At 31st March 2012 | 45,465 |
| Currency realignment | 1,227 |
| Provided during the year | 4,404 |
| At 31st March 2013 | 51,096 |
| CARRYING VALUES | |
| At 31st March 2013 | 39,157 |
| At 31st March 2012 | 42,622 |

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

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

During the year ended 31st March 2012, as a result of the weaker and slower than expected development in the PIATS business, impairment loss was identified for intangible assets based on their recoverable amounts. Accordingly, impairment loss of HK$4,889,000 had been recognised. No impairment loss is recognised during the year ended 31st March 2013. Particulars regarding impairment assessment are disclosed in note 19.

## 19. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF PIATS BUSINESS

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Impairment loss recognised in respect of property, plant and equipment | **–** | 2,919 |
| Impairment loss recognised in respect of intangible assets | **–** | 4,889 |
| | **–** | 7,808 |

For the purposes of impairment testing, property, plant and equipment and intangible assets set out in notes 17 and 18 have been allocated into two individual CGUs, comprising one subsidiary in the PIATS business in drugs industry and one subsidiary (a former jointly controlled entity (see note 34)) in the PIATS business in other consumer products industry.

During the year ended 31st March 2013, as a result of the intensive promotion of PIATS business in drugs industry, further reinforcement on the area of electronic monitoring of drugs by the relevant authorities in the PRC and improvements in revenue earned in the first half of year 2013 in the PIATS business in drugs industry, the management of the Group determines that there is no impairment on the CGU of PIATS business in drugs industry. As to the other consumer products industry, the carrying amount of the property, plant and equipment after completion of the deemed acquisition of HK$55,000 (see note 34) is insignificant.

During the year ended 31st March 2012, due to the weaker and slower development in the PIATS business in drugs industry, the Group recognised impairment losses of HK$1,379,000 and HK$4,889,000 in relation to the property, plant and equipment and intangible assets of PIATS business in drugs industry, respectively. Furthermore, during the year ended 31st March 2012, in view of the postponed development in PIATS business in other consumer products industry, the Group recognised impairment losses of HK$1,540,000 in relation to the property, plant and equipment of PIATS business in other consumer products industry.

The recoverable amount of PIATS business in both drugs and other consumer products industries 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 assessment of the time value of money and the risks specific to the PIATS business. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for the PIATS business in drugs industry and other consumer products industry based on the cash flows forecasts derived from the most recent financial budgets for the next three years using a discount rate of 22.40% (2012: 19.14%) and 22.56% (2012: 19.14%), respectively while the remaining forecast periods of seven years has been extrapolated with reference to annual growth rates in the relevant industries.

## 20. INTEREST IN AN ASSOCIATE

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Cost of investment in unlisted shares | **28,026** | 28,026 |
| Contribution from a shareholder | **19,215** | 19,215 |
| Share of post-acquisition profits and other comprehensive income, net of dividend received | **43,483** | 41,521 |
| Currency realignment | **6,747** | 4,408 |
| | **97,471** | 93,170 |

| 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% (2012: 30%) | Operation of a platform for electronic customs processing |

The summarised financial information in respect of the associate prepared in accordance with HKFRSs is set out below:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Total assets | **395,734** | 399,835 |
| Total liabilities | **(70,829)** | (89,267) |
| Net assets | **324,905** | 310,568 |
| Group's share of net assets of the associate | **97,471** | 93,170 |
| Turnover | **172,564** | 149,222 |
| Profit for the year | **6,539** | 63,905 |
| Group's share of profit of an associate for the year | **1,962** | 19,172 |

## 21. LOANS RECEIVABLE

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Loans receivable comprises: | | |
| Non-current assets: | | |
| Loan to CCIT on 3rd March 2006 (note a) | – | 24,974 |
| Loan to CCIT on 21st July 2009 (note b) | – | 11,321 |
| Loan to CCIT on 23rd November 2010 (note c) | – | 9,170 |
| | – | 45,465 |

Notes:

(a) 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 USD6,900,000 (equivalent to HK$53,820,000) (2012: equivalent to HK$53,820,000) to CCIT for the development of the PIATS business. During the year ended 31st March 2008 and 31st March 2011, the maturity dates of the loan were extended to 23rd March 2011 and 15th April 2014, respectively with terms and conditions remain unchanged.

As at 31st March 2012, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$24,974,000 with effective interest rate of 3.73% per annum.

(b) On 21st July 2009, CITIC 21CN (China) Technology Company Limited ("CITIC 21CN Technology") (a wholly owned subsidiary of the Group) entered into a loan agreement with CCIT in which CITIC 21CN Technology granted a non-interest bearing and unsecured three-year loan of RMB20,000,000 (equivalent to HK$25,000,000) (2012: equivalent to HK$24,400,000) to CCIT for the development of the PIATS business.

During the year ended 31st March 2011, the maturity date of the loan was extended to 15th April 2014 with terms and conditions remained unchanged.

As at 31st March 2012, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$11,321,000 with effective interest rate of 3.73% per annum.

(c) On 23rd November 2010, CITIC 21CN Technology entered into a second loan agreement with CCIT in which CITIC 21CN Technology granted a loan facility of RMB30,000,000 (equivalent to HK$37,500,000) (2012: equivalent to HK$36,600,000) to CCIT for the development of the PIATS business. The loan is non-interest bearing and unsecured, with a term up to 15th April 2014.

As at 31st March 2012, CCIT has drawn RMB16,000,000 (equivalent to HK$19,520,000) from the loan facility, and the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$9,170,000 with effective interest rate of 3.73% per annum.

During the year ended 31st March 2013, CCIT has further drawn RMB3,000,000 (equivalent to HK$3,750,000) from the loan facility (c). As at 31st March 2013, the above loans are fully eliminated on consolidation after the deemed acquisition of CCIT as stated in note 34. In the opinion of the directors, the above loans were not expected to be repaid within twelve months after the reporting period as at 31st March 2012. Accordingly, it was classified as non-current as at 31st March 2012.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted club debenture | **9,375** | 9,150 |

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

## 23. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost incurred plus recognised profits less recognised losses | **34,934** | 33,266 |
| Less: Progress billings | **(33,985)** | (30,326) |
| | **949** | 2,940 |

## 24. DEBTORS AND PREPAYMENTS

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **100,284** | 90,110 |
| Less: Allowance for doubtful debts | **(26,954)** | (26,470) |
| | **73,330** | 63,640 |
| Other receivables | **4,648** | 2,200 |
| Deposits and prepayments | **18,519** | 12,624 |
| Dividend receivable from an associate | **–** | 18,300 |
| | **96,497** | 96,764 |

## 24. DEBTORS AND PREPAYMENTS (Continued)

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, which approximated the respective revenue recognition dates:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| 0–90 days | **67,253** | 44,975 |
| 91–180 days | **1,698** | 8,689 |
| 181–360 days | **1,280** | 1,729 |
| Over 360 days | **3,099** | 8,247 |
| | **73,330** | 63,640 |

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$6,077,000 (2012: HK$18,665,000) 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.

### Aging of trade receivables which are past due but not impaired

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| 91–180 days | **1,698** | 8,689 |
| 181–360 days | **1,280** | 1,729 |
| Over 360 days | **3,099** | 8,247 |
| | **6,077** | 18,665 |

## 24. DEBTORS AND PREPAYMENTS (Continued)

### Movement in the allowance for doubtful debts

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **26,470** | 25,825 |
| Currency realignment | **651** | 651 |
| Impairment losses reversed | **(167)** | (6) |
| Balance at end of the year | **26,954** | 26,470 |

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.

## 25. INVESTMENTS HELD FOR TRADING

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Listed securities at fair value: | | |
| – equity securities listed in Hong Kong | **22,410** | 19,937 |
| – equity securities listed elsewhere | **5,081** | 21,628 |
| | **27,491** | 41,565 |

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.

## 26. FIXED DEPOSIT HELD AT A BANK WITH MATURITY OVER THREE MONTHS/BANK BALANCES AND CASH

The fixed deposit at 31st March 2013 carries a fixed interest of 2.8% per annum. Bank balances carry interest at market rates ranging from 0.001% to 0.500% per annum (2012: 0.001% to 0.500% per annum) during the year.

Included in the bank balances are Renminbi short-term bank deposits of HK$43,000,000 (2012: HK$58,699,000) kept in banks registered in the PRC, and which are subjected to exchange control as at 31st March 2013.

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:

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | **equivalent** | equivalent |
| USD | **72,447** | 46,998 |

## 27. CREDITORS AND ACCRUALS

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables | **41,024** | 32,446 |
| Receipt in advance from customers | **13,706** | 12,014 |
| Other payables and accruals | **104,531** | 75,805 |
| | **159,261** | 120,265 |

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

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0–90 days | **17,533** | 12,548 |
| 91–180 days | **370** | 1,792 |
| 181–360 days | **788** | 720 |
| Over 360 days | **22,333** | 17,386 |
| | **41,024** | 32,446 |

## 28. SHORT-TERM BANK LOANS

During the year ended 31st March 2013, HL95, a jointly controlled entity of the Group, obtained bank loans of RMB10,000,000 (equivalent to HK$12,500,000) (2012: RMB20,000,000 (equivalent to HK$24,400,000)) secured by corporate guarantee from another joint venture partner. The loans carry fixed interest rate at 6.30% (2012: 7.87%) per annum and are due for payment in January 2014 (2012: October 2012). As at 31st March 2013, the Group proportionate consolidated 49% of the amount of short-term bank loans of HL95 of HK$6,125,000 (2012: HK$11,956,000) stated in the consolidated statement of financial position.

## 29. DEFERRED TAXATION

The following deferred tax liability mainly arising from withholding tax applied on the profit of the associate in PRC for the year ended 31st March 2013 and 2012 and movement thereon during the year:

| | HK$'000 |
|---|---|
| At 1st April 2011 | 2,032 |
| Charged to profit or loss during the year (note 11) | 3,950 |
| Reversal of deferred tax liabilities upon distribution of profits (note 11) | (1,830) |
| At 31st March 2012 | 4,152 |
| Charged to profit or loss during the year (note 11) | 196 |
| At 31st March 2013 | 4,348 |

At the end of the reporting period, the Group has unused tax losses of approximately HK$297,428,000 (2012: HK$264,347,000) 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$83,416,000, HK$37,681,000, HK$34,532,000, HK$29,614,000 and HK$35,983,000 (2012: HK$41,772,000, HK$74,921,000, HK$24,742,000, HK$25,055,000 and HK$21,655,000) that will expire from year 2013 to 2017 (2012: year 2012 to 2016), respectively. These tax losses have not been agreed with the local tax bureau in the PRC. Other losses may be carried forward indefinitely.

## 30. SHARE CAPITAL

| | Number of ordinary shares | HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 each | | |
| – at 1st April 2011, 31st March 2012 and 31st March 2013 | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each | | |
| – at 1st April 2011, 31st March 2012 and 31st March 2013 | 3,717,869,631 | 37,179 |

## 31. RESERVES

Capital reserve represents the deemed capital contribution from a shareholder, CITIC Group Corporation (formerly known as "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 the joint ventures. PRC statutory reserves are required to be maintained under the relevant PRC laws applicable to the joint ventures of the Group.

## 32. 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<br>HK$ | Outstanding at 1.4.2011, 31.3.2012 and 31.3.2013 |
|---|---|---|---|
| **Directors of the Company, including ex-Director:** | | | |
| 24.6.2003 | 10.9.2004–23.6.2013 | 0.3220 | 30,000,000 |
| 24.6.2003 | 10.3.2005–23.6.2013 | 0.3220 | 30,000,000 |
| 24.6.2003 | 10.9.2005–23.6.2013 | 0.3220 | 30,000,000 |
| 24.6.2003 | 24.6.2004–23.6.2013 | 0.3220 | 11,666,666 |
| 24.6.2003 | 24.12.2004–23.6.2013 | 0.3220 | 11,666,666 |
| 24.6.2003 | 24.6.2005–23.6.2013 | 0.3220 | 11,666,668 |
| 23.3.2005 | 23.3.2006–23.3.2015 | 3.1750 | 10,000,000 |
| 23.3.2005 | 23.3.2007–23.3.2015 | 3.1750 | 10,000,000 |
| 23.3.2005 | 23.3.2008–23.3.2015 | 3.1750 | 10,000,000 |
| | | | 155,000,000 |
| Exercisable at the end of the year | | | 155,000,000 |
| Weighted average exercise price | | | HK$0.8742 |

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

## 32. SHARE OPTION (Continued)

| Date of grant | Exercisable period | Exercise price HK$ | Outstanding at 1.4.2011 | Forfeited during the year ended 31.3.2012 | Outstanding at 31.3.2012 and 31.3.2013 |
|---|---|---|---|---|---|
| **Employees:** | | | | | |
| 2.3.2005 | 2.9.2005–1.3.2015 | 2.5250 | 366,666 | (166,666) | 200,000 |
| 2.3.2005 | 2.9.2006–1.3.2015 | 2.5250 | 366,667 | (166,667) | 200,000 |
| 2.3.2005 | 2.3.2008–1.3.2015 | 2.5250 | 366,667 | (166,667) | 200,000 |
| 23.3.2005 | 23.3.2006–22.3.2015 | 3.1750 | 200,000 | – | 200,000 |
| 23.3.2005 | 23.3.2007–22.3.2015 | 3.1750 | 200,000 | – | 200,000 |
| 23.3.2005 | 23.3.2008–22.3.2015 | 3.1750 | 200,000 | – | 200,000 |
| 23.3.2005 | 23.3.2009–22.3.2015 | 3.1750 | 200,000 | – | 200,000 |
| 23.3.2005 | 23.3.2010–22.3.2015 | 3.1750 | 200,000 | – | 200,000 |
| 4.6.2007 | 4.6.2008 to 3.6.2017 | 2.5000 | 900,000 | (900,000) | – |
| 4.6.2007 | 4.6.2009 to 3.6.2017 | 2.5000 | 600,000 | (600,000) | – |
| 4.6.2007 | Note (a) | 2.5000 | 750,000 | (750,000) | – |
| 4.6.2007 | Note (b) | 2.5000 | 750,000 | (750,000) | – |
| | | | 5,100,000 | (3,500,000) | 1,600,000 |
| Total | | | 160,100,000 | (3,500,000) | 156,600,000 |
| Exercisable at the end of the year | | | | | 1,600,000 |
| Weighted average exercise price | | | HK$2.6377 | HK$2.5036 | HK$2.9313 |

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 2013 and 2012.

The Group did not recognise any expense for the years ended 31st March 2013 and 2012 in relation to share options granted by the Company.

## 33. JOINT VENTURES

As at 31st March 2013 and 2012, the Group has the following interests in jointly controlled entities:

| Name of entity | Place of registration/ operations | Nominal value of registered capital | Effective percentage of interest held by the Group 31.3.2013 | 31.3.2012 | Principal activities |
|---|---|---|---|---|---|
| HL 95 | PRC | RMB60,000,000 | **49%** | 49% | Provision of telecommunications/ information value added services |
| CCIT ("中信國檢信息技術有限公司") | PRC | RMB60,000,000 | **–*** | 50% | Provision of product identification, authentication, tracking system business in other consumer products industries |

* See note 34 for details.

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the proportionate consolidation with the line-by-line reporting format is set out below:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Current assets | **105,555#** | 83,820 |
| Non-current assets | **43,207#** | 59,400 |
| Current liabilities | **57,898#** | 65,160 |
| Income | **474,182**** | 471,988 |
| Expenses | **472,335**** | 476,160 |
| Taxation | **1,083**** | 1,228 |

\# Excluded the financial information of CCIT as it is not a jointly controlled entity of the Group as at 31st March 2013.

** Included the results of CCIT up to the date that the Group lost the joint control as disclosed in note 34.

## 34. DEEMED DISPOSAL OF A JOINT VENTURE/DEEMED ACQUISITION OF A SUBSIDIARY

In terms of the shareholders' agreement dated 20th January 2005, the Group had joint control over CCIT and CCIT was classified and accounted for as a jointly controlled entity. On 28th March 2013, the Group entered into a supplementary agreement (the "Arrangement") with the other joint venturer in terms of which the latter agreed to vote in accordance with the instructions of the Group on CCIT's financing and operating decisions. As a result of this Agreement, the Group obtained control over CCIT.

Upon the completion of the Arrangement, the Group lost joint control over CCIT and was deemed to have disposed of 50% equity interest in CCIT, which resulted in a gain on deemed disposal of the joint venture of HK$62,943,000.

At the same time, CCIT became a non-wholly owned subsidiary of the Group and the Arrangement resulted in goodwill arising from deemed acquisition of a subsidiary of approximately HK$74,435,000 which is fully impaired because of the continuous operating loss and postponed development in PIATS business in other consumer products industry. The acquisition has been accounted for using the acquisition method.

The fair value of the previously held interest and the fair values of the identificable assets and liabilities at the deemed acquisition date were determined by reference to the valuation carried out by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to the assets based approach.

The net liabilities of CCIT at the date of deemed acquisition are as follows:

| | **Fair value**<br>HK$'000 |
|---|---|
| Net liabilities acquired: | |
| Property, plant and equipment | 55 |
| Other receivables | 748 |
| Bank balances and cash | 904 |
| Trade and other payables | (38,888) |
| Amount due to a fellow subsidiary | (12,830) |
| Loans from Telecom and CITIC 21CN Technology | (98,859) |
| | (148,870) |
| Non-controlling interests | 74,435 |
| | (74,435) |

## 34. DEEMED DISPOSAL OF A JOINT VENTURE/DEEMED ACQUISITION OF A SUBSIDIARY (Continued)

### Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary

| | HK$'000 |
|---|---|
| Net liability of CCIT attributable to the Group upon consolidation | (74,435) |
| Net liability of CCIT derecognised upon consolidation | 62,943 |
| Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary (note 9) | (11,492) |
| Net cash inflow of cash and cash equivalents: | |
| Bank balances and cash disposed of | (452) |
| Bank balances and cash acquired | 904 |
| | 452 |

As the date of deemed acquisition of CCIT is close to year end, there is no material difference between the Group's turnover and loss for the year ended 31st March 2013 between the date of deemed acquisition and at the end of the reporting period.

If the deemed acquisition had been completed on 1st April 2012, total Group's turnover for the year ended 31st March 2013 would have been approximately HK$490,234,000, and loss for the year ended 31st March 2013 would have been HK$49,686,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April 2012, nor is it intended to be a projection of future results.

## 35. OPERATING LEASES

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

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Within one year | **18,051** | 10,758 |
| In the second to fifth years inclusive | **32,424** | 16,715 |
| | **50,475** | 27,473 |

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

## 36. CAPITAL COMMITMENTS

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **314** | 280 |

In addition to the above, the Group's share of the capital commitments of its joint ventures are as follows:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **341** | 768 |

## 37. RETIREMENT BENEFITS SCHEMES

### Defined contributed plans

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 (increase to maximum of HK$1,250 effective from 1st June 2012) 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.

## 38. RELATED PARTY TRANSACTIONS

### (a) Transactions with other government-related entities in the PRC

The Company's substantial shareholder with significant influence over the Group, CITIC Group Corporation, is controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

Apart from the transactions with the entities under CITIC Group Corporation, the Group also conducts business with other government-related entities in the ordinary course of the business, including deposit placements, borrowings and other general banking facilities with certain banks and financial institutions. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful. The directors consider those government-related 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 government-related entities, the Group does not differentiate whether the counter-party is a government-related entity or not.

The following is a summary of significant related party transactions between the Group and government-related entities (other than transactions with government-related entities which are not individually or collectively significant) during the year and balances arising from related party transactions at the end of the reporting period.

Significant related party transactions are as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Telecommunications/information value-added services agency fee expenses (note) | **38,510** | 68,605 |
| Revenue from entities under CITIC Group Corporation | **211,156** | 153,303 |

Note: The Group pays agency fee to China Mobile Communication Corporation and China United Telecommunications Corporation for providing telecommunications/information value-added services through their network and receiving service charges from customers through them.

## 38. RELATED PARTY TRANSACTIONS (Continued)

### (a) Transactions with other government-related entities in the PRC (Continued)

Balances with related parties are as follows:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Balances with entities under CITIC Group Corporation | | |
| Trade receivables | **15,615** | 10,793 |
| Bank balances | **43,864** | 35,215 |
| Balances with the other government-related entities | | |
| Trade receivables | **23,946** | 24,318 |
| Bank balances | **8,636** | 4,934 |

The Group believes that it has provided, at the best of its knowledge, adequate and appropriate disclosure of related party transactions as summarised above.

### (b) Transactions with other shareholders of a jointly controlled entity

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Telecommunications/information value-added services agency fee expenses (note) | **2,190** | 3,008 |

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.

## 39. ARBITRATION AND LITIGATION

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, Oracle (China) Software Systems Co., Ltd. (formerly known as Beijing Oracle Software Systems Co., Ltd.) ("Oracle Beijing"), an independent third party, submitted an application in relation to an arbitration (the "Arbitration") on the dispute arising from a payment agreement signed by Oracle Beijing, CITIC 21CN Technology, the Company and Oracle Systems Hong Kong Limited, an independent third party, on 30th May 2006 (the "Payment Agreement"). The Payment Agreement provided, among others, the settlement arrangement of licence fee and service fee in relation to the Oracle Licence and Service Agreement in an aggregate amount of approximately RMB116 million (the "Oracle Licence and Service Agreement") 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.

During the financial year ended 31st March 2011, the Company received an Arbitral Award handed down by CIETAC and received a court order (the "Order") from the High Court of the Hong Kong Special Administrative Region ("HKSAR") that leave be granted to Beijing Oracle to enforce the Arbitral Award. Details of the Arbitral Award were set out in the Company's announcement dated 24th June 2010. By a judgement made by Beijing First Intermediate People's Court dated 25th October 2011, the Arbitral Award was set aside. As a result, the Company received another court order dated 7th December 2011 from the High Court of the HKSAR that the legal action of the Order was discontinued. Accordingly, the interest expenses with other legal and related costs of RMB21,534,000 (equivalent to HK$26,271,000) arising from the Arbitral Award previously recognised were reversed during the year ended 31st March 2012.

On 24th January 2011, CITIC 21CN Technology, being the plaintiff, made an appeal to the Beijing First Intermediate People's Court against Oracle Beijing, being the defendant, for termination of the Oracle Licence and Services Agreement and Payment Agreement and compensation from Oracle Beijing. The legal proceedings of the claim were still in progress at the end of the reporting period and as at the date that these consolidated financial statements were authorised for issue.

On 18th January 2012, Oracle Beijing, being the plaintiff, commenced a new legal action in the High Court of the HKSAR against the Company, CITIC 21CN Technology and Oracle Systems Hong Kong Limited, an independent third party, for an alleged breach of the Oracle Licence and Services Agreement and the Payment Agreement and claimed for payment in relation to the agreements of approximately RMB88 million together with it costs. On 5th April 2012, the Company and CITIC 21CN Technology took out a Summons to apply for the legal action to be stayed. The hearing of the Summons was held on 31st January 2013, but the result has not yet been announced as at the date that these consolidated financial statements were authorised for issue. The aforesaid amounts of licence fee and other related costs, net of deposits paid, has been properly accounted for in the consolidated financial statements as at 31st March 2013 and 31st March 2012.

As the above application and litigation are still waiting for court decision, the result cannot be reasonably estimated at this stage. In the opinion of the directors of the Company, adequate provision has been made in the consolidated financial statements.

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies, at 31st March 2013 and 2012 are as follows:

| Name of subsidiary | Form of entity | 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 | Incorporated | Hong Kong | HK$1,000,000 | – | 100% (2012: 100%) | System integration and software development |
| CITIC 21CN (China) Technology Company Limited | Incorporated | PRC | RMB50,000,000 | – | 100% (2012: 100%) | Provision of product identification, authentication and tracking system business in drugs industry |
| Guangdong Grand Cycle Technology Company Limited | Incorporated | PRC | HK$21,000,000 | – | 100% (2012: 100%) | System integration and software development for a term of 50 years commencing December 2002 |
| CCIT | Incorporated | PRC | RMB60,000,000 | – | 50% (note) (2012: nil) | Provision of product identification, authentication and tracking system business in other consumer products industries |

Note: CCIT is the non-wholly owned subsidiary of the Group because the Group has obtained control over the financial and operating policies of CCIT during the current year (see note 34).

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.

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **2013** HK$'000 | 2012 HK$'000 |
|---|---|---|
| Investment in subsidiaries | **13,000** | 13,000 |
| Amounts due from subsidiaries | **260,628** | 274,840 |
| Other assets | **121,359** | 125,219 |
| | **394,987** | 413,059 |
| Total liabilities | **(42,549)** | (42,444) |
| Net assets | **352,438** | 370,615 |
| Capital and reserves | | |
| Share capital | **37,179** | 37,179 |
| Reserves | **315,259** | 333,436 |
| Total equity | **352,438** | 370,615 |

### Movement of share capital and reserves

| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Contributed surplus** HK$'000 | **Share option reserve** HK$'000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|---|
| At 1st April 2011 | 37,179 | 769,675 | 58,318 | 21,181 | (496,256) | 390,097 |
| Loss and total comprehensive expense for the year | – | – | – | – | (19,482) | (19,482) |
| Forfeiture of share options | – | – | – | (350) | 350 | – |
| At 31st March 2012 | 37,179 | 769,675 | 58,318 | 20,831 | (515,388) | 370,615 |
| Loss and total comprehensive expense for the year | – | – | – | – | (18,177) | (18,177) |
| At 31st March 2013 | **37,179** | **769,675** | **58,318** | **20,831** | **(533,565)** | **352,438** |

# FINANCIAL SUMMARY

| | Year ended 31st March | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| RESULTS | | | | | |
| Turnover | **489,885** | 481,663 | 372,132 | 287,560 | 274,645 |
| Loss before taxation | **(40,065)** | (2,558) | (24,934) | (50,078) | (145,775) |
| Taxation | **(1,279)** | (5,178) | (1,416) | (1,439) | (2,232) |
| Loss for the year | **(41,344)** | (7,736) | (26,350) | (51,517) | (148,007) |
| Attributable to: | | | | | |
| Owners of the Company | **(41,344)** | (7,735) | (26,350) | (51,516) | (148,007) |
| Non-controlling interests | **–** | (1) | – | (1) | – |
| | **(41,344)** | (7,736) | (26,350) | (51,517) | (148,007) |

| | As at 31st March | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | **457,463** | 537,520 | 565,785 | 568,280 | 603,045 |
| Total liabilities | **(170,072)** | (138,551) | (163,369) | (147,828) | (130,986) |
| | **287,391** | 398,969 | 402,416 | 420,452 | 472,059 |
| Equity attributable to owners of the Company | **361,817** | 398,960 | 402,406 | 420,442 | 472,048 |
| Non-controlling interests | **(74,426)** | 9 | 10 | 10 | 11 |
| | **287,391** | 398,969 | 402,416 | 420,452 | 472,059 |