CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 241

ANNUAL REPORT 09

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
Mr. CHEN Wuzhao

Company Secretary

Mr. YEE Foo Hei, ACS, ACIS, FCCA

Qualified Accountants

Mr. YUEN Wai Ho, FCCA, FCPA

Authorised Representatives

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

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of Business

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

Stock Code

241

Legal Advisors

Hong Kong

Yung, Yu, Yuen & Co.

Bermuda

Appleby

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Registrar and Transfer Office

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

Principal Bankers

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

Chairman's Statement

Over the last year, CITIC 21CN Company Limited ("CITIC 21CN") and its subsidiaries (together, the "Group") recorded rapid business growth and have achieved outstanding results in all aspects with the concerted and committed efforts of the whole management and every staff under its established development strategy.

With the speedy growth of China's economy and social environment, the Group's "Product Identification, Authentication, Tracking System" ("PIATS"), Honglian 95 and Dongfang Customs have been making contribution to the society and the people. To acquire a leading position in integrated information service platforms, we have stepped up our efforts in studying the needs of the enterprises, enhancing the quality of our information value-added services, promoting the management standard and economic efficiency of the Company for procuring greater social and economic efficiency.

In future, we will strive to achieve our targets of operation with our vision for long-term investment and to generate better returns for our shareholders. 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 and I look forward to creating a brighter future with them hand-in-hand.

Wang Jun
Chairman

Management Discussion and Analysis

Financial Review

The key financial figures of the Group for the year ended 31st March 2009 and the comparative figures for the year ended 31st March 2008 are summarized as follows:

	2009 **HK$'000**	2008 HK$'000	Change %
Turnover	**274,645**	233,374	17.7
Gross profit	**13,297**	49,609	(73.2)
Gross profit percentage	**4.8%**	21.3%	N/A
Other gains and losses	**2,063**	20,823	(90.1)
Administrative expenses	**146,222**	145,598	0.4
Change in fair value of convertible bonds	**5,802**	11,395	(49.1)
Impairment losses recognised in respect of PIATS business	**20,736**	–	N/A
Share of profit of an associate	**13,148**	11,520	14.1
Net loss attributable to shareholders	**148,007**	75,860	95.1
Loss per share			
Basic	**3.98 cents**	2.10 cents	89.5

Financial Review *(Continued)*

Results

– ***Turnover***

Turnover of the Group for the year increased by 17.7% from HK$233,374,000 to HK$274,645,000. The increase was mainly due to the following reasons:

(a) 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) ("HL95"), a 49%-owned jointly controlled entity of the Group, is engaged in telecommunications/information value-added services ("VAS"). The Group's share of the turnover of HL95 for the year ended 31st March 2009 increased by 15.4% to HK$259,371,000 from HK$224,821,000 for the year ended 31st March 2008. The Group's share of the turnover of HL95 comprised HK$110,312,000 (2008: HK$68,642,000) from short messaging services ("SMS"), HK$29,536,000 (2008: HK$62,947,000) from fixed-line interactive voice response system ("IVRS"), HK$35,385,000 (2008: HK$29,658,000) from mobile IVRS, HK$22,085,000 (2008: HK$32,351,000) from Internet-protocol ("IP") phone, HK$36,846,000 (2008: HK$26,563,000) from call centres, and HK$25,207,000 (2008: HK$4,660,000) from other value-added services. The increase in turnover was mainly due to the increase in SMS revenue, mobile IVRS revenue and call centre revenue, despite a substantial percentage decrease in revenues from the fixed-line IVRS and IP phone businesses. The introduction of several new and innovative services, including the promotion for the consumers' enquiry on the product information through PIATS, had stimulated the SMS revenue to rise by 60.7% or HK$41,670,000. Increase in mobile IVRS revenue by 19.3% or HK$5,727,000 was due to more cooperation with media, mainly TV and radio stations, to provide IVRS related services across China. Increase in call centre revenue by 38.7% or HK$10,283,000 was mainly due to the continuous growth of the call centre business in Beijing, Shenzhen and Foshan to cope with the development of certain major call centre accounts, including China Mobile Guangdong and CITIC Bank. HL95 has successfully reinforced the long-term relationship with those key accounts and HL95 has become one of the main reputable operators in the call centre industry in China. Fixed-line IVRS revenue decreased by 53.1% or HK$33,411,000 due to the aggressive marketing tactics and keen competition from HL95's main fixed-line IVRS competitors, China Telecom and China Unicom. The fixed-line IVRS business was also affected by the change in consumer habits to use less fixed line as main communication tool at home. Due to the keen competition from other IP phone providers, IP phone revenue decreased by 31.7% or HK$10,266,000 during the current year. Increase in other value-added service revenue was mainly due to the revenue generated from the sales of calling cards for telecom operators and the revenue generated from other developing projects following the issuance of 3G licenses.

(b) 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT"), a 50%-owned jointly controlled entity of the Group, is engaged in the PIATS business. The Group's share of the turnover of CCIT for the year ended 31st March 2009 increased by 111.9% to HK$13,306,000 from HK$6,279,000 for the year ended 31st March 2008. The increase in revenue was due to the increase in number of manufacturers joining and making use of the information services of PIATS during the year.

(c) 廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle"), a wholly-owned subsidiary of the Group, is engaged in software development and system integration services and its turnover for the year ended 31st March 2009 was HK$1,968,000 as compared with the turnover of HK$2,274,000 for the year ended 31st March 2008. The operations of Grand Cycle have been scaling down and the turnover for the year represented those revenue generated from the outstanding system integration service contracts to the telecom industry.

Financial Review *(Continued)*

Results *(Continued)*

– ***Gross profit percentage***

The gross profit percentage of the Group during the year ended 31st March 2009 decreased to 4.8% from 21.3% during the year ended 31st March 2008, mainly because of the reduction in gross profit margin of HL95, and gross loss percentage was recorded in both CCIT and Grand Cycle businesses.

HL95's gross profit percentage declined because of higher share of IVRS/SMS revenue obtained by telecom operators, therefore service providers like HL95 took a smaller share of the revenue, and the aggressive marketing tactics employed by the telecom companies. Service providers like HL95 must work with telecom operators in providing IVRS/SMS content services to customers of fixed-line and mobile telecom operators, and these consumers pay a fee for accessing such content. HL95's gross profit margin was also affected by the broadband network expense and the increased depreciation charge mainly due to the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan.

In the current year CCIT continued to build the infrastructure for PIATS, resulting in gross loss percentage from direct operating costs, depreciation charge and supporting fee for the PIATS platform.

As disclosed in the last year annual report that the management had been scaling down the operations of Grand Cycle due to the highly competitive nature and the long collection period inherent in the industry for providing system integration services to the telecom industry, which had resulted in gross loss percentage recorded by Grand Cycle for the year because of the write-down of inventories and the recognised losses of uncompleted or terminated contract works totalling HK$13,361,000.

– ***Other gains and losses***

Other gains and losses decreased by 90.1% to HK$2,063,000 for the year ended 31st March 2009. Such decrease was mainly attributable to the decrease in interest income to HK$6,793,000 when compared with HK$16,009,000 for the year ended 31st March 2008, as a result of reduction in bank deposit amount and bank interest rate during the year. For the current year, the Group also recorded a loss in fair value of investments held for trading of HK$5,273,000, whereas a gain in fair value of investments held for trading of HK$2,160,000 was reported for the year ended 31st March 2008.

– ***Administrative expenses***

Administrative expenses for the year ended 31st March 2009 was HK$146,222,000 when compared to HK$145,598,000 for the previous year. Such slight increase was the net result of the increase in staff costs of HK$5,484,000 from the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan and the provision of project development costs of approximately HK$3,300,000 in the face that the overall economy and the investment environment were overshadowed by uncertainties, as offset by the decrease in general operating expenses due to the management implementation of stricter measures to improve cost efficiency.

Financial Review *(Continued)*

Results *(Continued)*

– ***Change in fair value of convertible bonds***

The Group recorded a loss on change in fair value of convertible bonds of HK$5,802,000 for the year ended 31st March 2009 (2008: HK$11,395,000). The Company issued US$55 million and US$15 million, zero coupon convertible bonds at a par value of US$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Group has adopted HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for the Bonds. The Bonds are carried at fair value at the balance sheet date and the change in fair values are recognised in the consolidated income statement. The decrease in loss on change in fair values for the year was due to the full redemption of all the remaining US$10,000,000 Bonds on 22nd December 2008. As at 31st March 2009, no convertible bonds remained outstanding.

– ***Impairment losses recognised in respect of PIATS business***

Due to the sustained losses in the PIATS business, non-cash impairment losses were identified for property, plant and equipment and intangible assets which are used in the PIATS business. This action is a conservative judgment as to the future value of these assets given the Directors believe that there is great potential for PIATS and have confidence in the development of PIATS business.

During the year, the Group performed impairment review for the PIATS business based on cash flow forecasts derived from the most recent financial budgets for the next three years using a discount rate of 11.71%, while the remaining forecast periods of seven years has been extrapolated with reference to annual growth rate in the relevant industries. Due to the unfavourable development in the PIATS business in the current year, the Group recognised impairment losses of HK$9,888,000 (2008: nil) and HK$10,848,000 (2008: nil) in the current year in relation to property, plant and equipment and intangible assets of PIATS business.

– ***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 Dongfang Customs was HK$13,148,000 for the year ended 31st March 2009, an increase of 14.1% as compared with HK$11,520,000 for the year ended 31st March 2008. Such increase was mainly attributable to the continuous growth in number of users using Dongfang Customs' network platform for electronic custom filing and declaration. Dongfang Customs has been upgrading its existing system by introducing more new and enhanced features to attract users using their services.

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

Net loss attributable to shareholders for the year ended 31st March 2009 was HK$148,007,000, representing an increase of 95.1% over the loss of HK$75,860,000 for the previous year, mainly because of the decrease in both gross profit percentage and other gains and losses; and there were impairment losses recognised in respect of PIATS business as explained above.

– ***Loss per share***

Basic loss per share was HK3.98 cents for the year ended 31st March 2009, representing an increase of 89.5% over HK2.10 cents for the previous year.

Financial Resources, Liquidity and Foreign Exchange Exposures

The financial positions of the Group as at 31st March 2009 and the corresponding comparative figures as at 31st March 2008 are summarized as follows:

	31st March 2009 HK$'000	31st March 2008 HK$'000
Current assets	**273,250**	464,545
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	**196,421**	288,322
– debtors	**45,216**	76,724
Current liabilities	**130,346**	192,856
Including		
– short-term bank loans	**24,917**	26,950
– convertible bonds	**–**	84,653
Current ratio (current asset/current liabilities)	**2.10**	2.41
Quick ratio (bank balances and cash & debtors/current liabilities)	**1.85**	1.89
Shareholders' equity	**472,048**	607,506
Gearing ratio (bank loans and convertible bonds/shareholders' equity)	**5.28%**	18.37%

Bank balances and cash decreased by 31.9% from HK$288,322,000 as at 31st March 2008 to HK$196,421,000 as at 31st March 2009. The decrease in cash was principally due to the redemption of US$10,000,000 of convertible bonds, the development of the PIATS project and the operations of HL95, partly offset by trade debtors recovered during the year ended 31st March 2009.

As at 31st March 2009, trade debtors aged over 12 months were HK$9,923,000 (31st March 2008: HK$16,391,000), which were mainly related to system integration and software development business.

Bank loans on the consolidated balance sheets as at 31st March 2009 and 31st March 2008 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 2009, the current ratio decreased to 2.10 from 2.41 as at 31st March 2008, and the quick ratio also decreased to 1.85 from 1.89. The Group considers that the existing current and quick ratios are in healthy level.

Shareholders' equity decreased from HK$607,506,000 as at 31st March 2008 to HK$472,048,000 as at 31st March 2009, mainly because of the net loss of the Group incurred during the year ended 31st March 2009.

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

The Group's gearing ratio decreased from 18.37% as at 31st March 2008 to 5.28% as at 31st March 2009, mainly because of the redemption of US$10,000,000 of convertible bonds, offset by net loss of the Group incurred during the year ended 31st March 2009.

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

Business Review

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

- **CCIT**

  CCIT, a 50%-owned jointly controlled entity of the Group, is principally engaged in the provision of product tracking and enforcement information for the relevant PRC authorities through the operation of PIATS; the provision of product information to the manufacturers from the manufacturing to the distribution and sale of the product; the provision of a simple, convenient and efficient way for the consumers to enquire product information, and check whether the products are counterfeit products or products with poor quality or safety; and the provision of an interactive channel for the consumers to report counterfeit products or products with poor quality or safety. CCIT has established a leading position in the PRC information service sector by providing manufacturers and consumers with these information value-added services. In May 2008, PIATS helped to facilitate and to speed up the countrywide re-distribution of anaesthetics to the disaster area during Sichuan Earthquake. In August 2008, being one of the important tools to ensure the food safety during the period of Olympic Games, the relevant PRC authorities stipulated that PIATS barcodes to be attached on the food packages when the food was supplied to Beijing Olympic Games. Recently, the relevant PRC authorities have been continuing their serious efforts in progressing and promoting the application of PIATS, and these have shown good results in using PIATS to track and to crack down on counterfeit products, thus maintaining an orderly market. Besides, several well-known enterprises have shown to be successfully in using PIATS to protect their brand names, to reduce the counterfeit battling costs, to increase the customer confidence in using their products; and hence their market competitiveness and sales volume are enhanced. Up to the end of April 2009, the number of consumers' enquiry of the product information through PIATS platform exceeded 10 million and PIATS enquiry was widely used by consumers. Currently, PIATS has passed the significant milestone of laying the foundation from trial use to widespread use, and from doubtful manner to confidence attitude, which has won the widespread recognition of governmental departments, enterprises and consumers.

Business Review *(Continued)*

- **CCIT** *(Continued)*

  With the success in building up PIATS as one of the largest platforms in the PRC information service sector, the management is exploring the use of PIATS in other different areas, fields or industries to develop other business models generating additional revenue and contribution to CCIT. Recently, the scope of application of PIATS has already been extended to drugs control. In addition to the two categories of government controlled drugs (anaesthetics and type I mental disorder drugs) which have been using PIATS for tracking and are now capable for swift product recall when necessary, the relevant PRC authorities continue to implement further regulations to require another 273 pharmaceutical products falling into the 4 major categories of type II mental disorder drugs, blood products, vaccines and Chinese medicine injections to be monitored by the PIATS in their manufacturing and distribution. Such development of further regulatory system is being refined with significant progress already achieved. Since the initial roll-out of PIATS to the date of the announcement for the final results for the year ended 31st March 2009, over 84,000 manufacturers and distributors across China have joined PIATS, representing an increase of more than 31.2% since 31st March 2008.

  Future prospect

  Since the launch of PIATS, CCIT has experienced positive response from both manufacturers and consumers. The management is now actively promoting PIATS to other industries and fields to enlarge its customer bases and, at the same time, the management is developing new business models for PIATS to diversify and to enlarge its business scope. The management has confidence that PIATS can reduce counterfeit products, improve product safety and foods and drug safety, and protect consumers, manufacturers and intellectual property rights. In the coming months, the Group will continue to sign up manufacturers, distributors and retailers to join PIATS to enhance the quality and safety for products manufactured in the PRC. Given that there are no other companies that can provide a similar service as PIATS at the moment, the directors believe that there is great potential for PIATS.

- **HL95**

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

  Future prospect

  Looking forward, the recent issuance of 3G licences in China and “mobile internet” age will create immense business opportunities for HL95. It is also anticipated that all major telecom operators in China will invest heavily and launch aggressive marketing campaigns to attract users and gain market shares. With many years of good long-term relationship with telecom operators, HL95 will work closely with them so as to provide the latest 3G related software and premium contents, such as handset industry application software and handset entertainment contents. The growth of call centre revenue is expected to continue with good reputation earned by HL95 in the call centre industry in the PRC. HL95 is now exploring with many new potential customers outside of its main call centre facilities in Beijing, Shenzhen and Foshan and is planning to expand its call centre related operations to other cities across China for new business opportunities. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CCIT, in providing the PIATS service, uses HL95’s platform to enable consumers anywhere in the PRC to enquire product information by HL95’s IVRS and SMS systems and call centres. The directors believe that HL95 has good potential in the call centre industry and at the same time can provide valuable support to PIATS.

Business Review *(Continued)*

- **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. In the past, Dongfang Customs' users principally included only manufacturers and import/export corporations for customs declaration and clearance services. However, banks have now also joined as users to the network platform which allows foreign exchange monitoring and online payments to be processed electronically in the same network platform. Users are principally charged a time-based telecommunication fee for accessing the network platform.

  Future prospect

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

- **Grand Cycle**

  Grand Cycle is engaged in system integration and software development.

  Future prospect

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

Employees and Remuneration Policies

The numbers of full-time employees of the Group as at 31st March 2009 are detailed as follows:

Location	Telecommunications/ information value-added services	PIATS business	System integration and software development	Corporate	Associate
– Hong Kong	–	–	–	14	–
– The PRC	1,866	104	5	–	300
Total	1,866	104	5	14	300

Total staff costs of the Group for the year ended 31st March 2009 were HK$75,892,000. 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 2009, 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 2009.

Principal Activities

The Company is an investment holding company. The Group is an integrated information and content service provider. The principal activities of the Group comprise telecommunication and information value-added services, the provision of Product Identification, Authentication and Tracking System ("PIATS"), system integration and software development.

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

Results

The results of the Group for the year are set out in the consolidated income statement on page 27 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 29 of this annual report.

Property, Plant and Equipment

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

Share Capital

Details of the movements in share capital of the Company are set out in note 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 78 of this annual report.

Purchase, Sale and Redemption of the Listed Securities

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31st March 2009.

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
Mr. Liu Hongru (retired on 28th August 2008)
Mr. Chen Wuzhao (appointed on 30th December 2008)

In accordance with Clauses 99 and 102 of the Bye-laws of the Company, Mr. Sun Yalei, Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Chen Wuzhao will retire by rotation at the forthcoming annual general meeting (and, being eligible, offer themselves for re-election).

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

Biographical Details of Directors

Brief biographical details of Directors are set out on pages 20 to 21 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 2009. 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 "New Scheme") under which the Directors of the Company may at their discretion, invite Executive Directors and key employees of the Company or its subsidiaries and other eligible persons as defined in the New Scheme to subscribe for shares in the Company subject to terms and conditions stipulated therein. On the same date, the share option scheme approved by the shareholders on 28th May 1998 (the "Old Scheme") was terminated such that no further options shall be offered but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

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

				Number of options						
	Date of grant	Exercise price HK$	Exercise period	At 1st April 2008	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	At 31st March 2009	Share option Scheme
Directors										
Mr. Wang Jun	23.3.2005	3.175	23.3.2006 to 23.3.2015	10,000,000	–	–	–	–	10,000,000	∂
	23.3.2005	3.175	23.3.2007 to 23.3.2015	10,000,000	–	–	–	–	10,000,000	∂
	23.3.2005	3.175	23.3.2008 to 23.3.2015	10,000,000	–	–	–	–	10,000,000	∂
Ms. Chen Xiao Ying	13.7.2000	0.9900	13.1.2001 to 27.5.2008	21,000,000	–	(21,000,000)	–	–	–	Δ
	13.7.2000	0.9900	13.7.2001 to 27.5.2008	21,000,000	–	(21,000,000)	–	–	–	Δ
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	28,000,000	–	(28,000,000)	–	–	–	Δ
	24.6.2003	0.3220	10.9.2004 to 23.6.2013	30,000,000	–	–	–	–	30,000,000	∂
	24.6.2003	0.3220	10.3.2005 to 23.6.2013	30,000,000	–	–	–	–	30,000,000	∂
	24.6.2003	0.3220	10.9.2005 to 23.6.2013	30,000,000	–	–	–	–	30,000,000	∂
Mr. Luo Ning	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	–	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	–	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	–	–	–	–	3,333,334	∂
Mr. Sun Yalei	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	–	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	–	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	–	–	–	–	3,333,334	∂
Mr. Zhang Lianyang	24.6.2003	0.3220	24.6.2004 to 23.6.2013	5,000,000	–	–	–	–	5,000,000	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	5,000,000	–	–	–	–	5,000,000	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	5,000,000	–	–	–	–	5,000,000	∂
				225,000,000	–	(70,000,000)	–	–	155,000,000	

Share Option *(Continued)*

	Date of grant	Exercise price HK$	Exercise period	Number of options: At 1st April 2008	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	At 31st March 2009	Share option Scheme
Employees	13.7.2000	0.9900	13.7.2002 to 27.5.2008	200,000	–	(200,000)	–	–	–	∆
	2.3.2005	2.525	2.9.2005 to 1.3.2015	366,666	–	–	–	–	366,666	∂
	2.3.2005	2.525	2.9.2006 to 1.3.2015	366,667	–	–	–	–	366,667	∂
	2.3.2005	2.525	2.3.2008 to 1.3.2015	366,667	–	–	–	–	366,667	∂
	23.3.2005	3.175	23.3.2006 to 22.3.2015	200,000	–	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2007 to 22.3.2015	200,000	–	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2008 to 22.3.2015	200,000	–	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2009 to 22.3.2015	200,000	–	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2010 to 22.3.2015	200,000	–	–	–	–	200,000	∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	2,533,334	–	(2,533,334)	–	–	–	∂
	1.6.2005	2.175	1.6.2009 to 30.6.2009	200,000	–	–	(200,000)	–	–	∂
	1.6.2005	2.175	1.6.2010 to 30.6.2010	200,000	–	–	(200,000)	–	–	∂
	4.6.2007	2.500	4.6.2008 to 3.6.2017	12,300,000	–	–	(5,400,000)	–	6,900,000	∂
	4.6.2007	2.500	4.6.2009 to 3.6.2017	8,200,000	–	–	(3,600,000)	–	4,600,000	∂
	4.6.2007	2.500	*Note (a)*	10,250,000	–	–	(4,500,000)	–	5,750,000	∂
	4.6.2007	2.500	*Note (b)*	10,250,000	–	–	(4,500,000)	–	5,750,000	∂
				46,233,334	–	(2,733,334)	(18,400,000)	–	25,100,000	
				271,233,334	–	(72,733,334)	(18,400,000)	–	180,100,000	

Note:

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

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

∆ Options under the Old Scheme
∂ Options under the New Scheme

Share Option *(Continued)*

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

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

Distributable Reserves of the Company

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

Directors' Interests in Contracts

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

Directors' Interests Or Short Positions in Equity Securities

As at 31st March 2009, the Directors and their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 352 of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules:

	Number of shares/underlying shares held		
	Shares (Corporate interest)	Shares (Personal interest)(2)	Aggregate interests
Mr. Wang Jun	–	30,000,000	30,000,000
Ms. Chen Xiao Ying	784,937,030(1)	90,000,000	874,937,030
Mr. Luo Ning	–	10,000,000	10,000,000
Mr. Sun Yalei	–	10,000,000	10,000,000
Mr. Zhang Lianyang	–	15,000,000	15,000,000
	784,937,030	155,000,000	939,937,030

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

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

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

Substantial Shareholders' Interests or Short Positions in Equity Securities

As at 31st March 2009, the following parties (other than a Director or chief executive of the Company) had interests or short positions in the shares of underlying shares of the Company would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

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

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

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

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

Connected Transactions

During the year, the Group entered into certain connected transactions, as defined in Chapter 14A of the Listing Rules of the Stock Exchange, which are also related party transactions, references to which are set out in note 37 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.

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 36 to the consolidated financial statements.

Major Customers and Suppliers

The aggregate purchase during the year attributable to the Group's five largest suppliers was 10% of the total purchases of the Group, of which 3% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 40% of the total turnover of the Group, of which 17% 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.

Post Balance Sheet Event

Subsequent to 31st March 2009, the Group's wholly-owned subsidiary, CITIC 21CN (China) Technology Company Limited ("CITIC 21CN Technology") entered into a loan agreement with CCIT, a 50%-owned jointly-controlled entity of the Group.

Pursuant to which CITIC 21CN Technology conditionally agreed to advance the Loan to CCIT as its capital expenditures and general working capital on the terms and subject to the conditions therein contained.

The loan amounting RMB20,000,000 is non-interest bearing, unsecured and due for payment on 31st March 2012.

Litigation

Details of litigation are set out in note 38 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 22 to 25 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 2009 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 22 to 25 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, 21st July 2009

The Biographical Information of Directors

Executive Directors

Mr. Wang Jun, aged 68, 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 46, is the Executive Vice Chairman of the Company. Ms. Chen is responsible for setting overall corporate strategies and their implementation for the Group. Currently, she is a Non-Executive Director of China Resources Power Holdings Company Limited which is listed on the Main Board of the Stock Exchange of Hong Kong. She has been Chairman of the Pollon Group, a private investment group, since its inception in 1989 and which invests in power plants, telecommunications and property development in the PRC. Ms. Chen has been a Member of the Chinese National People's Political Consultative Committee since 1998 and a Permanent Honorary President of Friends of Hong Kong Association Limited since 1999. Ms. Chen has served as Director since May 2000.

Mr. LUO Ning, aged 50, is the Vice Chairman of the Company. He is an Assistant President of CITIC Group. He is also a Director of CITIC Information Leadership Group under CITIC Group. Mr. Luo has over 16 years' experience in the telecommunication business. Mr. Luo graduated from the PLA Communication & Command Institute. Mr. Luo has served as Director since September 2002.

Mr. SUN Yalei, aged 41, is an Assistant President of CITIC Group, Vice Chairman and President of CITIC Guoan Group. Mr. Sun has extensive experience in financial and assets management. Mr. Sun graduated from the Renmin University of China. Mr. Sun has served as Director since September 2002.

Mr. ZHANG Lianyang, aged 64, 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 46, is currently the Vice Chairman of CITIC Guoan Group and CITIC Guoan Information Industries Company Limited. Ms. Xia has served as Director since August 2003.

Independent Non-executive Directors

Dr. HUI Ho Ming, Herbert, JP, aged 51, has over 20 years experience in merchant banking, securities regulation as well as extensive commercial and corporate finance experience. He is currently the Executive Director of Hong Kong Resources Holding Company Ltd and Independent Non-Executive Director of the Company and Dynasty Fine Wines Group Ltd (all are listed on the main board of the Hong Kong Stock Exchange); Vice Chairman of First Vanguard Private Equity Ltd; Chairman of China Supply Company Ltd; Deputy Chief Executive and Head of the Listing Division, the Hong Kong Stock Exchange Ltd (1992 to 1997); Vice Chairman of Hong Kong Council for Academic Accreditation and Vocational Qualification; Chairman of Finance Committee of the APAS Research and Development Centre; Immediate Past Chairman of the Hong Kong Institute of Directors; 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 48, is currently the executive partner, managing director and attorney-at-law of a law firm in Beijing. Mr. Zhang has served as independent non-executive Director since August 2003.

Mr. CHEN Wuzhao, aged 39, is now an associate professor in the Institute of Accountancy in Tsinghua University, China. He possesses in-depth knowledge and working experience in the aspects of auditing, accounting, corporate finance and financial management of listed companies in China and overseas. Mr. Chen holds a Ph.D degree in Accounting from Tsinghua University, China, a M.A. degree in Accounting from Graduate School, the Research Institute for Fiscal Science, Ministry of Finance of China and a B.A. degree in Accounting from Zhongnan University of Economics and Law, China. Mr. Chen has served as independent non-executive Director since December 2008.

Company Secretary

Mr. YEE Foo Hei, aged 45, is an associate member of The Hong Kong Institute of Chartered Secretaries and a fellow member of The Association of Chartered Certified Accountants in the U.K. He holds a Bachelor Degree in Law. Mr. Yee has around 20 years' experience in company secretarial both in an international accountancy firm and in commercial sector. Mr. Yee was appointed as Company Secretary in January 2006.

Corporate Governance Report

In the opinion of the Directors, throughout the year ended 31st March 2009, the Company has complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices (the "CG Code") under Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the following deviations:–

1. The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to Clause 99 of the Company's Bye-Laws. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable.

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

3. The Chairman of the board did not attend in the annual general meeting of the Company held on 28th August 2008. The meeting was conducted in a good and proper manner.

The Board

Composition

The Board consists of six Executive Directors and three Independent Non-Executive Directors ("INED(s)"). The names and biographical details of each director are disclosed on pages 20 to 21 of this Annual Report.

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

Function

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

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

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

The Board *(Continued)*

Function *(Continued)*

The Board held six regular Board meetings at approximately quarterly interval during the year ended 31st March 2009 and additional board meetings would be held when necessary. An agenda and accompanying board papers are sent in full to all directors in a timely manner. Adequate information related to the issues are also supplied for the board and its committee to make decisions which is for the best interests of the Group. The directors who cannot attend in person might through other electronic means of communications to participate. Individual attendance of each director at the Board meetings and the Audit Committee meetings during the year ended 31st March 2009 are set out in the table below:

	Attendants/Number of Meetings	
Directors	*Board*	*Audit Committee*
Executive Directors		
Mr. Wang Jun *(Chairman)*	1/6	–
Ms. Chen Xiao Ying *(Executive Vice Chairman)*	6/6	–
Mr. Luo Ning *(Vice Chairman)*	5/6	–
Mr. Sun Yalei	4/6	–
Mr. Zhang Lianyang	4/6	–
Ms. Xia Guilan	4/6	–
Independent Non-Executive Directors		
Dr. Hui Ho Ming, Herbert, JP	6/6	2/2
Mr. Liu Hongru *(Note 1)*	2/3	2/2
Mr. Zhang Jian Ming	6/6	1/1
Mr. Chen Wuzhao *(Note 2)*	2/2	–

Notes:

1. Mr. Liu Hongru was retired as Independent Non-Executive Director on 28th August 2008.

2. Mr. Chen Wuzhao was appointed as Independent Non-Executive Director on 30th December 2008.

Board Committees

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

Remuneration Committee

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

The Remuneration Committee's responsibilities are to review and consider Company's policy for remuneration of directors and senior management, to exercise powers of the Board to determine and review the remuneration packages of executive directors and senior management, including salaries, bonuses, benefits in kind, pension rights, compensation payments and the terms on which they participate in any share option and to recommend to the Board remuneration of Non-Executive Directors and to assess the performance of Executive Directors.

The Remuneration Committee held one meeting for the year ended 31st March 2009.

The Board *(Continued)*

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors, Mr. Chen Wuzhao, Mr. Zhang Jian Ming and Dr. Hui Ho Ming, Herbert, JP. Dr. Hui Ho Ming, Herbert, JP as the Chairman of the Committee. The main duties of the Audit Committee include:

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

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

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

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

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

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

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

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

The Audit Committee held two meetings for the financial year ended 31st March 2009.

Other Information

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

Model Code for Directors' Securities Transactions

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

Auditors' Remuneration

The remuneration paid to Deloitte Touche Tohmatsu for audit and non-audit services for the year ended 31st March 2009 amounted to HK$1,720,000 and HK$51,000 respectively.

Internal Control

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

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

Shareholder Communication

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

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

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

Directors' Responsibility in Preparing the Financial Statements

The Directors acknowledge their responsibility for preparing the Company's financial statements of the Group (the "Financial Statements") which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certificated Public Accountants. The Directors endeavour to ensure a balanced, clear and understandable assessments of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable.

The statement of the Company's auditors about their reporting responsibilities on the Financial Statements is set out in the Independent Auditor's Report on page 26.

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 27 to 77, which comprise the consolidated balance sheet as at 31st March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March 2009 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
21st July 2009

Consolidated Income Statement

For the year ended 31st March 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	7	**274,645**	233,374
Cost of sales and services		**(261,348)**	(183,765)
Gross profit		**13,297**	49,609
Other gains and losses	9	**2,063**	20,823
Change in fair value of convertible bonds		**(5,802)**	(11,395)
Administrative expenses		**(146,222)**	(145,598)
Impairment losses recognised in respect of PIATS business	18	**(20,736)**	–
Share of profit of an associate		**13,148**	11,520
Finance costs	10	**(1,523)**	(1,359)
Loss before taxation	11	**(145,775)**	(76,400)
Taxation	12	**(2,232)**	(133)
Loss for the year		**(148,007)**	(76,533)
Attributable to:			
Equity holders of the Company		**(148,007)**	(75,860)
Minority interests		**–**	(673)
		(148,007)	(76,533)
		HK cents	HK cents
Loss per share			
Basic	15	**(3.98)**	(2.10)

Consolidated Balance Sheet

At 31st March 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	16	**112,726**	122,735
Intangible assets	17	**61,563**	74,459
Interest in an associate	19	**121,366**	105,345
Loan receivable	20	**25,665**	25,039
Available-for-sale investments	21	**8,475**	8,250
		329,795	335,828
Current assets			
Inventories		**–**	1,437
Amounts due from customers for contract work	22	**3,978**	18,662
Debtors and prepayments	23	**60,201**	138,201
Investments held for trading	24	**12,650**	17,923
Bank balances and cash	25	**196,421**	288,322
		273,250	464,545
Current liabilities			
Creditors and accruals	26	**104,532**	81,112
Taxation payable		**897**	141
Short-term bank loans	27	**24,917**	26,950
Convertible bonds	28	**–**	84,653
		130,346	192,856
Net current assets		**142,904**	271,689
Total assets less current liabilities		**472,699**	607,517
Non-current liability			
Deferred taxation	29	**640**	–
		640	–
		472,059	607,517
Capital and reserves			
Share capital	30	**37,179**	37,179
Reserves	31	**434,869**	570,327
Equity attributable to equity holders of the Company		**472,048**	607,506
Minority interests		**11**	11
Total equity		**472,059**	607,517

The financial statements on pages 27 to 77 were approved and authorised for issue by the Board of Directors on 21st July 2009 and are signed on its behalf by:

Chen Xiao Ying
Director

Zhang Lianyang
Director

Consolidated Statement of Changes in Equity

For the year ended 31st March 2009

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(Note 31)*	Contributed surplus HK$'000 *(Note 31)*	Translation reserve HK$'000	Share options reserve HK$'000	General reserve HK$'000 *(Note 31)*	Accumul-ated losses HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April 2007	33,370	440,733	19,215	78,108	20,360	23,245	11,851	(308,642)	318,240	667	318,907
Exchange differences arising on translation of the Group's operations recognised directly in equity	–	–	–	–	28,624	–	–	–	28,624	17	28,641
Loss for the year	–	–	–	–	–	–	–	(75,860)	(75,860)	(673)	(76,533)
Total recognised income and expenses for the year	–	–	–	–	28,624	–	–	(75,860)	(47,236)	(656)	(47,892)
Recognition of equity-settled share based payments	–	–	–	–	–	3,751	–	–	3,751	–	3,751
Lapse of share options	–	–	–	–	–	(2,031)	–	2,031	–	–	–
Issue of shares on conversion of convertible bonds	3,809	328,942	–	–	–	–	–	–	332,751	–	332,751
	3,809	328,942	–	–	–	1,720	–	2,031	336,502	–	336,502
At 31st March 2008	37,179	769,675	19,215	78,108	48,984	24,965	11,851	(382,471)	607,506	11	607,517
Exchange differences arising on translation of the Group's operations recognised directly in equity	–	–	–	–	11,823	–	–	–	11,823	–	11,823
Loss for the year	–	–	–	–	–	–	–	(148,007)	(148,007)	–	(148,007)
Total recognised income and expenses for the year	–	–	–	–	11,823	–	–	(148,007)	(136,184)	–	(136,184)
Recognition of equity-settled share based payments	–	–	–	–	–	726	–	–	726	–	726
Lapse of share options	–	–	–	–	–	(2,279)	–	2,279	–	–	–
	–	–	–	–	–	(1,553)	–	2,279	726	–	726
At 31st March 2009	37,179	769,675	19,215	78,108	60,807	23,412	11,851	(528,199)	472,048	11	472,059

Consolidated Cash Flow Statement

For the year ended 31st March 2009

	2009 HK$'000	2008 HK$'000
Operating activities		
Loss before taxation	**(145,775)**	(76,400)
Adjustments for:		
Interest income	**(6,793)**	(16,009)
Imputed interest income on loan receivable	**(626)**	(655)
Dividends from equity securities	**(379)**	(41)
Change in value of loan receivable resulting from extension of maturity	**–**	1,921
Change in fair value of convertible bonds	**5,802**	11,395
Finance costs	**1,523**	1,359
Share of profit of an associate	**(13,148)**	(11,520)
Depreciation	**20,945**	15,770
Amortisation of intangible assets	**4,079**	3,791
Allowance for doubtful debts	**3,461**	4,172
Impairment loss recognised in respect of property, plant and equipment	**9,888**	–
Impairment loss recognised in respect of intangible assets	**10,848**	–
Write down of inventories	**1,743**	–
Loss on disposal of property, plant and equipment	**1,216**	3,020
Share option expense	**726**	3,751
Operating cash flows before movements in working capital	**(106,490)**	(59,446)
Increase in inventories	**(267)**	(218)
Decrease in amounts due from customers for contract work	**15,193**	872
Decrease in debtors and prepayments	**78,308**	27,431
Decrease (increase) in investments held for trading	**5,273**	(2,528)
Increase in creditors and accruals	**21,208**	6,013
Cash generated from (used in) operations	**13,225**	(27,876)
Interest received	**6,793**	16,009
Dividends received from equity securities	**379**	41
Taxation (paid) refunded	**(836)**	530
Net cash from (used in) operating activities	**19,561**	(11,296)
Investing activities		
Purchase of property, plant and equipment	**(22,820)**	(35,366)
Proceeds from disposal of property, plant and equipment	**4,025**	–
Proceeds from disposal of available-for-sale investments	**–**	5
Net cash used in investing activities	**(18,795)**	(35,361)

Consolidated Cash Flow Statement

For the year ended 31st March 2009

	2009 HK$'000	2008 HK$'000
Financing activities		
Repayment of convertible bonds	**(90,455)**	(137,756)
Repayment of short-term bank loans	**(27,685)**	(12,863)
Interest paid	**(1,523)**	(1,359)
New short-term bank loans raised	**24,917**	25,725
Net cash used in financing activities	**(94,746)**	(126,253)
Decrease in cash and cash equivalents	**(93,980)**	(172,910)
Cash and cash equivalents at beginning of the year	**288,322**	453,984
Effect of foreign exchange rate changes	**2,079**	7,248
Cash and cash equivalents at end of the year, representing bank balances and cash	**196,421**	288,322

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

1. General

CITIC 21CN Company Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Company is Renminbi. The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public company in Hong Kong with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. The Group is an integrated information and content service provider. The principal activities of the Group comprise telecommunication and information value-added services, the provision of Product Identification, Authentication and Tracking System ("PIATS"), system integration and software development. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

2. Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following amendments of Hong Kong Accounting Standards ("HKAS"s) and interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC)* – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

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

2. Application of New and Revised Hong Kong Financial Reporting Standards

(Continued)

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKAS 1 (Revised)	Presentation of financial statements [3]
HKAS 23 (Revised)	Borrowing costs [3]
HKAS 27 (Revised)	Consolidated and separate financial statements [4]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [3]
HKAS 39 (Amendment)	Eligible hedged items [4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [3]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [3]
HKFRS 3 (Revised)	Business combinations [4]
HKFRS 7 (Amendment)	Improvement disclosures about financial instruments [3]
HKFRS 8	Operating segments [3]
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives [5]
HK(IFRIC) – INT 13	Customer loyalty programmes [6]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [3]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [7]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners [4]
HK(IFRIC) – INT 18	Transfers of assets from customers [8]

[1] Effective for annual periods beginning on or after 1st January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July 2009.
[2] Effective for annual periods beginning on or after 1st January 2009, 1st July 2009 and 1st January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1st January 2009.
[4] Effective for annual periods beginning on or after 1st July 2009.
[5] Effective for annual periods ending on or after 30th June 2009.
[6] Effective for annual periods beginning on or after 1st July 2008.
[7] Effective for annual periods beginning on or after 1st October 2008.
[8] Effective for transfers on or after 1st July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain interest free loan receivable which is adjusted to its fair value on initial recognition and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Interest in an associate

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

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses in recognised.

3. Significant Accounting Policies *(Continued)*

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of sales related taxes.

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the rights to receive payment have been established.

System integration and software development contracts

When the outcome of a contract for system integration and software development can be estimated reliably, contract costs are charged to the consolidated income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production, rental or administrative purposes. They are carried at cost, less any recognised impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment for their intended use.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Intangible assets

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

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Impairment losses on tangible and intangible asset

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant Accounting Policies *(Continued)*

Inventories

Inventories, which represented general merchandise goods, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except when 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to consolidated income statements on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land and building

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

3. Significant Accounting Policies *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets include financial assets at FVTPL, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivable and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities include other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Convertible bonds at fair value through profit or loss

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds with embedded derivatives as a whole are designated as financial liabilities at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bond designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. Significant Accounting Policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

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

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

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

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

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Retirement benefit cost

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

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

4. Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost less subsequent accumulated depreciation/amortisation and accumulated impairment losses. Property, plant and equipment and intangible assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimation of the future cash flows generated by each asset or group of assets. If the recoverable amounts are less than the carrying amounts of the property, plant and equipment and intangible assets, the relevant asset's carrying amount is written down to the recoverable amount. If the management's expectation is different, it will impact on the carrying value and write downs of property, plant and equipment and intangible assets in the periods in which such estimate is changed. At 31st March 2009, the carrying amount of property, plant and equipment and intangible assets are HK$112,726,000 (2008: HK$122,735,000) and HK$61,563,000 (2008: HK$74,459,000) respectively (net of accumulated impairment loss of HK$9,888,000 (2008: nil) and HK$10,848,000 (2008: nil) 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 2009, the carrying amount of trade receivables is HK$43,180,000 (2008: HK$52,295,000) (net of allowance for doubtful debts of HK$24,178,000 (2008: HK$20,167,000)).

Income taxes

As at 31st March 2009, no deferred tax asset was recognised in the consolidated balance sheet in relation to the estimated unused tax losses of HK$197,326,000 (2008: HK$117,670,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such a recognition takes place.

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

5. Financial Instruments

Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Investments held for trading	**12,650**	17,923
Loans and receivables (including cash and cash equivalents)	**267,302**	390,085
Available-for-sale financial assets	**8,475**	8,250
	288,427	416,258
Financial liabilities		
Designated as at FVTPL (see below)	**–**	84,653
Amortised cost	**109,717**	95,782
	109,717	180,435

Financial liabilities designated as at FVTPL

	2009 HK$'000	2008 HK$'000
Cumulative increase in fair value attributable to changes in credit risk *(note)*	**–**	602
Changes in fair value attributable to changes in credit risk recognised during the year *(note)*	**–**	70

Note: For the year ended 31st March 2008, the change in fair value attributable to change in credit risk is calculated as the difference between total change in fair value of financial liabilities designated at FVTPL of HK$1,147,000 and the change in fair value of financial liabilities designated at FVTPL due to change in market risk factors alone amounting to HK$1,077,000. The change in fair value due to market risk factors was calculated using benchmark interest yield curves as at the balance sheet date holding credit risk margin constant. The fair value of financial liabilities designated at FVTPL was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the balance sheet date and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

5. Financial Instruments *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include debtors, available-for-sale investments, investments held for trading, loan receivable, bank balances and cash, creditors and short-term bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

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

	Liabilities		Assets	
	2009 HK$'000 equivalent	2008 HK$'000 equivalent	**2009 HK$'000 equivalent**	2008 HK$'000 equivalent
United States Dollars ("USD")	**–**	84,653	**101,947**	217,544

Sensitivity analysis

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

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

	2009 HK$'000	2008 HK$'000
USD	**5,097**	6,645

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowing (see Note 27 for details of these borrowings). However, the management considered the risk of fixed-rate bank borrowing is insignificant.

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

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

5. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31st March 2009 would decrease/increase by HK$640,000 (2008: decrease/increase by HK$526,000).

Other price risk

In 2008, the Group is required to estimate the fair value of the convertible bonds at balance sheet date, which therefore exposed the Group to equity price risks. Details of the convertible bonds are set out in note 28.

In 2009, the Group is exposed to equity price risk through its investments in equity securities listed in Hong Kong and the United States. The management manages these exposure by maintaining a portfolio of investments with different risks. Details of the investment are set out in note 24. Management has closely monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

(i) Equity price risk of investments held for trading

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

The management adjusted the sensitivity rate from 5% to 20% for assessing equity price risk after considering the impact of the volatile financial market condition after the third quarter of 2008.

If the prices of the respective listed equity instruments had been 20% higher/lower, loss for the year ended 31st March 2009 decrease/increase by HK$2,532,000 (2008: decrease/increase by HK$896,000 at 5%) as a result of the changes in fair value of investments held for trading.

5. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk (Continued)

Sensitivity analysis (Continued)

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

If the equity price of the Company had been 10% higher/lower while all other input variables of the valuation model were held constant, the Group's loss for the year ended 31st March 2008 would (increase) decrease as follows:

	2008 HK$'000
Higher by 10%	(4,329)
Lower by 10%	1,736

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

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

Credit risk

As at 31st March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk in relation to loan receivable and debtors, the management of the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

The credit risk in relation to bank balances and cash is limited because the majority of the counterparties are financial institutions and banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation in the People's Republic of China (the "PRC").

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

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 monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.3.2009 HK$'000
2009							
Financial liabilities							
Trade and other payables	–	84,801	–	–	–	84,801	84,801
Bank loans – fixed rate	6.26%	128	8,512	16,639	–	25,279	24,917
		84,929	8,512	16,639	–	110,080	109,718

	Weighted average effective interest rate %	Less than 1 month or repayable on demand HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.3.2009 HK$'000
2008							
Financial liabilities							
Trade and other payables	–	68,832	–	–	–	68,832	68,832
Bank loans – fixed rate	5.96%	16,400	369	10,899	–	27,668	26,950
Convertible bonds	–	90,455	–	–	–	90,455	84,653
		175,687	369	10,899	–	186,955	180,435

5. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.

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

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

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

6. Capital Risk Management

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

7. Turnover

	2009	2008
	HK$'000	HK$'000
An analysis of the Group's turnover is as follows:		
Telecommunications/information value-added services	**259,371**	224,821
System integration and software development	**1,968**	2,274
Product identification, authentication, tracking system business	**13,306**	6,279
	274,645	233,374

8. Business and Geographical Segments

Business segments

The Group is an integrated information and content service provider. For management purposes, the Group is organised into three operating divisions namely telecommunications/information valued-added services, the provision of Product Identification, Authentication, Tracking System ("PIATS"), and system integration and software development. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Telecommunications/information value-added services	–	Provision of telecommunications/information value-added services
PIATS business	–	Operation of an exclusive platform for PIATS
System integration and software development	–	Provision of system integration and software development

8. Business and Geographical Segments *(Continued)*

Business segments *(Continued)*

Business segments for the year are as follows:

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Total HK$'000
Year ended 31st March 2009				
Turnover				
External sales	259,371	13,306	1,968	274,645
Segment results	(19,173)	(73,949)	(17,718)	(110,840)
Other gains and losses				2,063
Change in fair value of convertible bonds				(5,802)
Share of profit of an associate				13,148
Finance costs				(1,523)
Unallocated corporate expenses				(42,821)
Loss before taxation				(145,775)
Taxation				(2,232)
Loss for the year				(148,007)
ASSETS				
Segment assets	94,713	123,331	12,501	230,545
Interest in an associate				121,366
Unallocated corporate assets				251,134
Consolidated total assets				603,045
LIABILITIES				
Segment liabilities	33,574	52,320	6,399	92,293
Unallocated corporate liabilities				38,693
Consolidated total liabilities				130,986

Notes to the Consolidated Financial Statements
For the year ended 31st March 2009

8. Business and Geographical Segments *(Continued)*
Business segments *(Continued)*

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

Notes to the Consolidated Financial Statements
For the year ended 31st March 2009

8. Business and Geographical Segments *(Continued)*

Business segments *(Continued)*

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

8. Business and Geographical Segments *(Continued)*

Business segments *(Continued)*

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Others HK$'000	Total HK$'000
OTHER INFORMATION					
Capital additions	9,321	25,998	45	2	35,366
Depreciation	9,839	3,860	87	1,984	15,770
Amortisation of intangible assets	–	3,791	–	–	3,791
Allowance for doubtful debts	–	–	4,172	–	4,172
Loss on disposal of property, plant and equipment	1,138	–	–	1,882	3,020

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

9. Other Gains and Losses

	2009 HK$'000	2008 HK$'000
Included in other gains and losses are the following items:		
Interest income from bank deposits	**6,793**	16,009
Imputed interest income from loan receivable	**626**	655
Dividends from equity securities	**379**	41
Change in fair value of investments held for trading	**(5,273)**	2,160
Net exchange (loss) gain	**(597)**	374
Others	**135**	1,584
	2,063	20,823

Notes to the Consolidated Financial Statements
For the year ended 31st March 2009

10. Finance Costs

	2009 HK$'000	2008 HK$'000
Interest on bank loans wholly repayable within five years	**1,523**	1,359

11. Loss Before Taxation

	2009 HK$'000	2008 HK$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 13)*	**2,792**	1,860
Other staff's retirement benefits scheme contributions	**1,987**	1,552
Other staff costs	**70,387**	63,245
Share option expense *(note 32)*	**726**	3,751
Total staff costs	**75,892**	70,408
Allowance for doubtful debts (included in administrative expenses)	**3,461**	4,172
Amortisation of intangible assets (included in cost of sales and services)	**4,079**	3,791
Auditor's remuneration	**2,319**	2,594
Change in value of loan receivable resulting from extension of maturity *(note 20)*	**–**	1,921
Cost of inventories recognised as an expense (included amount of write down of inventories of HK$1,743,000 for 2009, nil for 2008) included in cost of sales and services	**2,140**	1,936
Depreciation	**20,945**	15,770
Loss on disposal of property, plant and equipment	**1,216**	3,020
Operating lease rentals in respect of buildings	**9,986**	12,992
Share of tax of an associate (included in share of profit of an associate)	**2,565**	534

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

12. Taxation

	2009 HK$'000	2008 HK$'000
Current tax:		
PRC Enterprise Income Tax – The Company and subsidiaries	–	17
PRC Enterprise Income Tax – Jointly controlled entities	1,592	32
	1,592	49
Underprovision in prior years:		
Hong Kong	–	33
PRC Enterprise Income Tax	–	51
	–	84
Deferred tax:		
Current year *(note 29)*	640	–
	2,232	133

On 26th June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax has been made for the year as the Group's income neither arises in, nor is derived from, Hong Kong. Hong Kong Profits Tax in 2008 represented underprovision in prior years.

The tax rate applicable for the subsidiaries and jointly controlled entities in the PRC is 25% (2008: ranges from 15% to 25%).

On 16th March 2007, Mainland China promulgated the Law of Mainland China on Enterprise Income Tax (the "New Law") by Order No. 63 of Mainland China. On 6th December 2008, the State Council of Mainland China issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the existing tax rates from 15% to 25% for certain subsidiaries and jointly controlled entities from 1st January 2008 and 33% to 25% for certain subsidiaries and jointly controlled entities from 1st January 2008 respectively.

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

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

12. Taxation *(Continued)*

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

	2009 **HK$'000**	2008 HK$'000
Loss before taxation	**(145,775)**	(76,400)
Tax credit at the applicable tax rate of 25% (2008: 33%)	**(36,444)**	(25,212)
Tax effect of income that is not taxable for the tax purposes	**(1,399)**	(2,860)
Tax effect of share of profit of an associate	**(3,287)**	(3,802)
Tax effect of expenses that are not deductible for tax purposes	**18,770**	12,851
Tax effect of tax losses not recognised	**19,914**	13,688
Utilisation of tax losses previously not recognised	**–**	(74)
Effect of different tax rates of subsidiaries operating in Hong Kong, which incurred tax losses during the year	**4,038**	5,596
Underprovision in prior years	**–**	84
Deferred taxation arising from withholding tax on undistributed profit of an associate	**640**	–
Others	**–**	(138)
Taxation for the year	**2,232**	133

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

13. Directors' Emoluments

The emoluments paid or payable to each of the 10 (2008: 9) directors were as follows:

	Mr. Wang Jun HK$'000	Ms. Chen Xiao Ying HK$'000	Mr. Luo Ning HK$'000	Mr. Sun Yalei HK$'000	Mr. Zhang Lian Yang HK$'000	Ms. Xia Guilan HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	Mr. Chen Wuzhao HK$'000	2009 Total HK$'000
Fees	1,000	–	–	–	–	–	360	–	82	50	1,492
Other emoluments											
– salaries and other benefits	–	1,288	–	–	–	–	–	–	–	–	1,288
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	–	–	–	12
Total emoluments	1,000	1,300	–	–	–	–	360	–	82	50	2,792
Share option expenses	–	–	–	–	–	–	–	–	–	–	–

	Mr. Wang Jun HK$'000	Ms. Chen Xiao Ying HK$'000	Mr. Luo Ning HK$'000	Mr. Sun Yalei HK$'000	Mr. Zhang Lian Yang HK$'000	Ms. Xia Guilan HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	2008 Total HK$'000
Fees	–	–	–	–	–	–	360	–	200	560
Other emoluments										
– salaries and other benefits	–	1,288	–	–	–	–	–	–	–	1,288
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	–	–	12
Total emoluments	–	1,300	–	–	–	–	360	–	200	1,860
Share option expenses	–	–	–	–	–	–	–	–	–	–

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

14. Employees' Emoluments

The aggregate emoluments of the five highest paid individuals included two (2008: one) director(s) of the Company, whose emoluments are included in note 13 above. The aggregate emoluments of the remaining three (2008: four) highest paid individuals are as follows:

	2009 HK$'000	2008 HK$'000
Salaries and allowances	**3,131**	3,974
Share option expenses	**547**	3,069
Retirement benefits scheme contributions	**19**	24
	3,697	7,067

The emoluments of the individuals fall within the following band:

	Number of individuals	
	2009	2008
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	3	4

15. Loss Per Share

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

	2009 HK$'000	2008 HK$'000
Loss for the purposes of basic loss per share	**(148,007)**	(75,860)

Number of shares

	2009	2008
Weighted average number of ordinary shares for the purposes of basic loss per share	**3,717,869,631**	3,606,917,861

The diluted loss per share for the year ended 31st March 2009 and 31st March 2008 was not presented as the exercise of the share options outstanding and the conversion of the Company's outstanding convertible bonds would result in a decrease in loss per share in both years.

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

16. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements, furniture and equipment HK$'000	Computer and special computer equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1st April 2007	1,827	15,458	120,072	8,168	20,765	166,290
Currency realignment	164	676	10,596	499	1,851	13,786
Additions	–	720	19,023	78	15,545	35,366
Disposals	–	(3,946)	(2,661)	(189)	–	(6,796)
Transfers	–	–	398	–	(398)	–
At 31st March 2008	1,991	12,908	147,428	8,556	37,763	208,646
Currency realignment	55	242	4,025	162	1,031	5,515
Additions	–	7,450	11,566	531	3,273	22,820
Disposals	–	(2,563)	(22,641)	(1,943)	(23)	(27,170)
Transfers	–	19	30,861	–	(30,880)	–
At 31st March 2009	**2,046**	**18,056**	**171,239**	**7,306**	**11,164**	**209,811**
DEPRECIATION AND IMPAIRMENT						
At 1st April 2007	739	7,764	52,666	6,430	–	67,599
Currency realignment	70	456	5,328	464	–	6,318
Provided for the year	67	2,641	12,354	708	–	15,770
Eliminated on disposals	–	(2,059)	(1,527)	(190)	–	(3,776)
At 31st March 2008	876	8,802	68,821	7,412	–	85,911
Currency realignment	26	166	1,926	152	–	2,270
Provided for the year	70	3,194	16,653	1,028	–	20,945
Impairment loss recognised	–	–	9,888	–	–	9,888
Eliminated on disposals	–	(2,468)	(17,684)	(1,777)	–	(21,929)
At 31st March 2009	**972**	**9,694**	**79,604**	**6,815**	**–**	**97,085**
CARRYING VALUES						
At 31st March 2009	**1,074**	**8,362**	**91,635**	**491**	**11,164**	**112,726**
At 31st March 2008	1,115	4,106	78,607	1,144	37,763	122,735

16. Property, Plant and Equipment *(Continued)*

During the year, 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 support from government. The review led to the recognition of an impairment loss of HK$9,888,000 (2008: nil), that has been recognised in profit or loss. Particulars regarding impairment assessment are disclosed in note 18.

Items of property, plant and equipment are depreciated on a straight line basis, over their estimated useful lives as follows:

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

17. Intangible Assets

	License rights HK$'000
COST	
At 1st April 2007	72,925
Currency realignment	6,498
At 31st March 2008	79,423
Currency realignment	2,166
At 31st March 2009	**81,589**
AMORTISATION AND IMPAIRMENT	
At 1st April 2007	912
Currency realignment	261
Provided during the year	3,791
At 31st March 2008	4,964
Currency realignment	135
Impairment loss recognised for the year	10,848
Provided during the year	4,079
At 31st March 2009	**20,026**
CARRYING VALUES	
At 31st March 2009	**61,563**
At 31st March 2008	74,459

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

17. Intangible Assets *(Continued)*

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

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

As a result of the weaker and slower than expected support from government in the PIATS business as compared to prior years, impairment loss was identified for intangible assets based on their recoverable amounts. Accordingly, impairment loss of HK$10,848,000 (2008: nil) has been recognised. Particulars regarding impairment assessment are disclosed in note 18.

18. Impairment Losses Recognised in Respect of PIATS Business

	2009 **HK$'000**	2008 HK$'000
Impairment loss recognised in respect of property, plant and equipment	**9,888**	–
Impairment loss recognised in respect of intangible assets	**10,848**	–
	20,736	–

As explained in notes 16 and 17, impairment losses were identified for property, plant and equipment and intangible assets which are used in the PIATS business.

The recoverable amount of PIATS business has been determined on the basis of value in use calculation. The key factors for the value in use calculation are discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the PIATS business. The growth rates are based on industry growth forecasts. 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 based on cash flow forecasts derived from the most recent financial budgets for the next three years using a discount rate of 11.71%, while the remaining forecast periods of seven years has been extrapolated with reference to annual growth rate in the relevant industries. Due to the unfavourable development in the PIATS business in the current year, the Group recognised impairment losses of HK$9,888,000 (2008: nil) and HK$10,848,000 (2008: nil) in the current year in relation to property, plant and equipment and intangible assets of PIATS business.

19. Interest in An Associate

	2009 HK$'000	2008 HK$'000
Cost of investment in unlisted shares	**57,345**	57,345
Contribution from a shareholder	**19,215**	19,215
Share of post-acquisition profit	**41,111**	27,963
Currency realignment	**3,695**	822
	121,366	105,345

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% (2008: 30%)	Operation of a platform for electronic customs processing

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

	2009 HK$'000	2008 HK$'000
Total assets	**460,725**	497,562
Total liabilities	**(56,172)**	(146,412)
Net assets	**404,553**	351,150
Group's share of net assets of the associate	**121,366**	105,345
Turnover	**128,140**	112,529
Profit for the year	**43,827**	38,400
Group's share of profit of an associate for the year	**13,148**	11,520

20. Loan Receivable

On 3rd March 2006, CITIC 21CN Telecom Company Limited (a wholly owned subsidiary of the Group), entered into a loan agreement with China Credit Information Technology Company Limited ("CCIT") (a 50% owned jointly controlled entity of the Group) in which CITIC 21CN Telecom Company Limited granted a non-interest bearing and unsecured two-year loan of US$6,900,000 (equivalent to HK$53,820,000) to CCIT for the development of the PIATS business.

During the year ended 31st March 2008, the maturity date of the loan was extended to 23rd March 2011 with terms and conditions remain unchanged. The carrying amount of the loan receivable was reduced by HK$1,921,000 upon re-negotiation in 2008 to reflect the change in terms and the amount was charged to the consolidated income statement. The loan was then reclassified to non-current assets.

As at 31st March 2009, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$25,665,000 (2008: HK$25,039,000) with effective interest rate of 2.5% (2008: 2.5%).

The Group has assessed CCIT's credit quality and considered to be of a good credit quality and the balance is not past due in accordance with the extension agreement at the balance sheet date. Accordingly, no impairment loss is required to recognise in the consolidated financial statements.

21. Available-for-sale Investments

	2009 **HK$'000**	2008 HK$'000
Unlisted club debenture	**8,475**	8,250

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

22. Amounts Due From Customers for Contract Work

	2009 **HK$'000**	2008 HK$'000
Cost incurred plus recognised profits less recognised losses	**28,995**	52,131
Less: Progress billings	**(25,017)**	(33,469)
	3,978	18,662

23. Debtors and Prepayments

	2009 HK$'000	2008 HK$'000
Trade receivables	**67,358**	72,462
Less: Allowance for doubtful debts	**(24,178)**	(20,167)
	43,180	52,295
Other receivables *(Note)*	**2,036**	24,429
Deposits and prepayments	**14,985**	61,477
	60,201	138,201

Note: As at 31st March 2008, other receivables included an interest free advance to Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("Information Centre of AQSIQ") of the PRC, in order for Information Centre of AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK$19,800,000). Information Centre of AQSIQ is the former joint venture partner in CCIT. The amount was settled in full during the year.

The Group provides an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2009 HK$'000	2008 HK$'000
0–90 days	**29,118**	29,642
91–180 days	**3,429**	3,421
181–360 days	**710**	2,841
Over 360 days	**9,923**	16,391
	43,180	52,295

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$14,062,000 (2008: HK$22,653,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

23. Debtors and Prepayments *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2009 HK$'000	2008 HK$'000
91–180 days	**3,429**	3,421
181–360 days	**710**	2,841
Over 360 days	**9,923**	16,391
	14,062	22,653

Movement in the allowance for doubtful debts

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**20,167**	14,314
Currency realignment	**550**	1,681
Increase in allowance recognised in profit or loss	**3,461**	4,172
Balance at end of the year	**24,178**	20,167

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

24. Investments Held for Trading

	2009 HK$'000	2008 HK$'000
Listed securities:		
– equity securities listed in Hong Kong	**10,075**	13,550
– equity securities listed elsewhere	**2,575**	4,373
	12,650	17,923

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

25. Bank Balances and Cash

Bank balances comprise short-term bank deposits with an original maturity less than three months at interest rates ranged from 0.05% to 4.45% (2008: 1.31% to 5.42%) during the year.

Included in the bank balances are Renminbi short-term bank deposits of HK$108,723,000 (2008: HK$82,790,000) kept in banks registered in the PRC, and the Renminbi is not a freely convertible currency.

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

	2009 HK$'000 equivalent	2008 HK$'000 equivalent
United States Dollars	**73,707**	188,132

26. Creditors and Accruals

	2009 HK$'000	2008 HK$'000
Trade payables	**31,905**	39,154
Receipts in advance from customers	**6,996**	–
Other payables and accruals	**65,631**	41,958
	104,532	81,112

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

	2009 HK$'000	2008 HK$'000
0–90 days	**12,078**	5,624
91–180 days	**1,348**	18,194
181–360 days	**3,363**	1,270
Over 360 days	**15,116**	14,066
	31,905	39,154

27. Short-term Bank Loans

During the year ended 31st March 2009, Beijing Honglian 95 Information Industries Company Limited ("HL95"), a jointly controlled entity of the Group obtained bank loan of RMB15,000,000 and RMB30,000,000 (equivalent to HK$16,950,000 and HK$33,900,000) (2008: RMB30,000,000 and RMB20,000,000 (equivalent to HK$33,000,000 and HK$22,000,000)) secured by corporate guarantee from another joint venture partner. The loan carries fixed interest rate at 6.45% and 6.16% (2008: 5.94% and 5.98%) per annum and due for payment on May 2009 and July 2009 (2008: April 2008 and July 2008) respectively. As at 31st March 2009, the Group share 49% of the amount of short-term bank loans of HL95 of HK$24,917,000 (2008: HK$26,950,000) stated in the consolidated balance sheet.

28. Convertible Bonds

	HK$'000
As at 1st April 2007	543,765
Change in fair value during the year	11,395
Converted during the year	(332,751)
Repayment during the year	(137,756)
As at 31st March 2008	84,653
Change in fair value during the year	5,802
Repayment during the year	(90,455)
As at 31st March 2009	**–**

The Company issued US$55 million and US$15 million, zero coupon convertible bonds at a par value of US$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Bonds are unsecured and denominated in United States dollars. The Bonds entitle the holders to convert them into ordinary shares of the Company at any time between 15th February 2006 and 14th December 2010 at an initial conversion price of HK$1.36 per share subject to adjustments. The conversion price will be adjusted downwards on each anniversary date of issue to the ten-day average price immediately prior to the reset date multiplied by 125% if such reset price is less than the conversion price in effect; and adjusted downwards to the ten-day average price immediately prior to the date of the conversion notice delivered by the bondholders multiplied by 94% if such price is less than the conversion price in effect. If the Bonds have not been converted, they will be redeemed at amount as determined by the term of the Bonds as stated in the Company's circular dated 23rd December 2005.

In previous years, US$44,000,000 (equivalent to HK$343,200,000) of the issued Bonds were converted into 409,241,209 shares of HK$0.01 each of the Company at a price range from HK$0.71 to HK$0.95 per share.

28. Convertible Bonds *(Continued)*

Pursuant to the Bonds agreement, on each of the second, third and fourth anniversary after the issue date, the holder of Bonds will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder at 110.381 per cent, 115.969 per cent and 121.840 per cent respectively of their principal amount. In previous year, issued bonds of USD16,000,000 (equivalent to HK$124,800,000) were redeemed on 21st November 2007 at a premium of 110.381 per cent by the holders. During the year, issued bonds of USD10,000,000 (equivalent to HK$78,000,000) were redeemed on 22nd December 2008 at a premium of 115.969 per cent by the holders.

The functional currency of the Company is RMB and the conversion option of these Bonds is denominated in U.S. dollars. Since the conversion price for the Bonds is subject to change due to both change in stock price and currency, the conversion will not result in settlement by the exchange of a fixed amount for fixed number of equity instrument. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the Bonds do not contain any equity component and the entire Bonds were designated as "financial liabilities at fair value through profit or loss" which requires the Bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognised in the consolidated income statement. During the year, a loss on change in its fair value of HK$5,802,000 (2008: HK$11,395,000) is recognised in the consolidated income statement.

As at 31st March 2009, no convertible bonds remained outstanding.

The fair value of the Bonds as at 31st March 2008 was calculated using the market value basis. The inputs into the model were as follows:

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

29. Deferred Taxation

The following deferred tax liability mainly arising from withholding tax applied on the profit of the PRC associate for the year ended 31st March 2009 and movement thereon during the year:

	HK$'000
At 1st April 2007 and 31st March 2008	–
Charged to consolidated income statement	640
At 31st March 2009	**640**

29. Deferred Taxation *(Continued)*

At the balance sheet date, the Group has unused tax losses of approximately HK$197,326,000 (2008: HK$117,670,000) 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$79,656,000 and HK$41,479,000 (2008: HK$41,479,000) that will expire in year 2013 and 2012 respectively (2008: year 2012). These tax losses have not been agreed with the local tax bureau in the PRC. Other losses can be carried forward indefinitely.

30. Share Capital

	Number of ordinary shares	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1st April 2007, 31st March 2008 and 31st March 2009	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April 2007	3,336,979,992	33,370
– conversion of convertible bonds	380,889,639	3,809
– at 31st March 2008 and 31st March 2009	3,717,869,631	37,179

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

31. Reserves

Capital reserve represents the deemed capital contribution from a shareholder, CITIC Group, made on the acquisition of the associate, Dongfang Customs, from that shareholder during the year ended 31st March 2005.

Contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the surplus arising from the reduction of share capital. Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. The Company has no distributable reserves at 31st March 2009 and 2008.

General reserve represents the share of PRC statutory reserves from jointly controlled entities. PRC statutory reserves are required to be maintained under the relevant PRC laws applicable to the jointly control entities of the Group.

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 HK$	Outstanding at 1.4.2007 and 31.3.2008 and 1.4.2008	Lapse during the year ended 31.3.2009	Outstanding at 31.3.2009
Directors of the Company, including ex-Director:					
13.7.2000	13.1.2001 – 27.5.2008	0.9900	21,000,000	(21,000,000)	–
13.7.2000	13.7.2001 – 27.5.2008	0.9900	21,000,000	(21,000,000)	–
13.7.2000	13.7.2002 – 27.5.2008	0.9900	28,000,000	(28,000,000)	–
24.6.2003	10.9.2004 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	10.3.2005 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	10.9.2005 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	24.6.2004 – 23.6.2013	0.3220	11,666,666	–	11,666,666
24.6.2003	24.12.2004 – 23.6.2013	0.3220	11,666,666	–	11,666,666
24.6.2003	24.6.2005 – 23.6.2013	0.3220	11,666,668	–	11,666,668
23.3.2005	23.3.2006 – 23.3.2015	3.1750	10,000,000	–	10,000,000
23.3.2005	23.3.2007 – 23.3.2015	3.1750	10,000,000	–	10,000,000
23.3.2005	23.3.2008 – 23.3.2015	3.1750	10,000,000	–	10,000,000
			225,000,000	(70,000,000)	155,000,000
Exercisable at the end of the year					155,000,000
Weighted average exercise price			HK$0.9102	HK$0.9900	HK$0.8742

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

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

32. Share Option *(Continued)*

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.4.2007	Granted during the year ended 31.3.2008	Lapsed during the year ended 31.3.2008	Forfeited during the year ended 31.3.2008	Outstanding at 31.3.2008	Granted during the year ended 31.3.2009	Lapsed during the year ended 31.3.2009	Forfeited during the year ended 31.3.2009	Outstanding at 31.3.2009
Employees:											
13.7.2000	13.7.2002 – 27.5.2008	0.9900	200,000	–	–	–	200,000	–	(200,000)	–	–
22.9.2004	22.9.2007 – 22.10.2007	1.2300	600,000	–	(600,000)	–	–	–	–	–	–
1.2.2005	5.1.2006 – 31.1.2015	2.2550	1,000,000	–	–	(1,000,000)	–	–	–	–	–
1.2.2005	5.1.2007 – 31.1.2015	2.2550	1,000,000	–	–	(1,000,000)	–	–	–	–	–
1.2.2005	5.1.2008 – 31.1.2015	2.2550	1,000,000	–	–	(1,000,000)	–	–	–	–	–
2.3.2005	2.9.2005 – 1.3.2015	2.5250	366,666	–	–	–	366,666	–	–	–	366,666
2.3.2005	2.9.2006 – 1.3.2015	2.5250	366,667	–	–	–	366,667	–	–	–	366,667
2.3.2005	2.3.2008 – 1.3.2015	2.5250	366,667	–	–	–	366,667	–	–	–	366,667
23.3.2005	23.3.2006 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2007 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2008 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2009 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	–	–	200,000
23.3.2005	23.3.2010 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	–	–	200,000
1.6.2005	1.6.2007 – 30.6.2007	2.1750	2,533,333	–	(2,533,333)	–	–	–	–	–	–
1.6.2005	1.6.2008 – 30.6.2008	2.1750	2,533,334	–	–	–	2,533,334	–	(2,533,334)	–	–
1.6.2005	1.6.2009 – 30.6.2009	2.1750	200,000	–	–	–	200,000	–	–	(200,000)	–
1.6.2005	1.6.2010 – 30.6.2010	2.1750	200,000	–	–	–	200,000	–	–	(200,000)	–
4.6.2007	4.6.2008 to 3.6.2017	2.500	–	13,200,000	–	(900,000)	12,300,000	–	–	(5,400,000)	6,900,000
4.6.2007	4.6.2009 to 3.6.2017	2.500	–	8,800,000	–	(600,000)	8,200,000	–	–	(3,600,000)	4,600,000
4.6.2007	Note (a)	2.500	–	11,000,000	–	(750,000)	10,250,000	–	–	(4,500,000)	5,750,000
4.6.2007	Note (b)	2.500	–	11,000,000	–	(750,000)	10,250,000	–	–	(4,500,000)	5,750,000
			11,366,667	44,000,000	(3,133,333)	(6,000,000)	46,233,334	–	(2,733,334)	(18,400,000)	25,100,000
Total			236,366,667	44,000,000	(3,133,333)	(6,000,000)	271,233,334	–	(72,733,334)	(18,400,000)	180,100,000
Exercisable at the end of the year											8,800,000
Weighted average exercise price			HK$2.2472	HK$2.5000	HK$1.9940	HK$2.3775	HK$2.4480	–	HK$2.0883	HK$2.4929	HK$2.5280

Note:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

32. Share Option *(Continued)*

No share options has been exercised during the year ended 31st March 2009 and 31st March 2008.

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

The Company has used the Binomial model (the "Model") with the consideration of vesting period and possible exercise pattern to value the share options granted during the year ended 31st March 2008. The Model is one of the commonly used models to estimate the fair value of the share option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Details of the fair values of share options determined at the date of grant on 4th June 2008 using the Model with the inputs are as follows:

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

Note:

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

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year.

The Group recognised expense of HK$726,000 for the year ended 31st March 2009 (2008: HK$3,751,000) in relation to share options granted by the Company.

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

33. Joint Ventures

The Group has the following significant interests in joint ventures:

Name of entity	Place of registration/ operations	Nominal value of registered capital	Effective percentage of interest held by the Group	Principal activities
HL 95 ("北京鴻聯九五信息產業有限公司")	PRC	RMB60,000,000	49% (2008: 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% (2008: 50%)	Provision of product identification, authentication, tracking system business

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

	2009 HK$'000	2008 HK$'000
Current assets	**74,742**	106,969
Non-current assets	**69,808**	75,827
Current liabilities	**73,457**	76,602

	2009 HK$'000	2008 HK$'000
Income	**268,792**	230,038
Expenses	**305,696**	264,274
Taxation	**1,213**	32

Notes to the Consolidated Financial Statements
For the year ended 31st March 2009

34. Operating Lease Commitments

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

	2009 **HK$'000**	2008 HK$'000
Within one year	**6,861**	7,994
In the second to fifth years inclusive	**3,457**	7,982
	10,318	15,976

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

35. Capital Commitments

	2009 **HK$'000**	2008 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**444**	3,003

36. Retirement Benefits Schemes

Defined contributed plans

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

The Group (including its subsidiaries and jointly controlled entities) also participates in the employees' pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

37. Related Party Transactions

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under the CITIC Group which is controlled by the PRC government. Apart from the transactions with related parties disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions with other state-controlled entities are as follows:

	2009 **HK$'000**	2008 HK$'000
Telecommunications/information value-added services agency fee *(note)*	**47,375**	36,383

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

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

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

	2009 **HK$'000**	2008 HK$'000
Telecommunications/information value-added services agency fee *(note)*	**8,418**	4,721

Note: The Group pays agency fee to China Telecommunications Corporation ("China Telecom"), a joint venture partner of the Group, for providing telecommunications/information value-added services through the network of China Telecom and receiving service charges from customers through China Telecom. China Telecom holds 28% equity interest in Dongfang Customs directly and 20% equity interest in CCIT indirectly.

Notes to the Consolidated Financial Statements

For the year ended 31st March 2009

38. Litigation

During the financial year ended 31st March 2007, the Company received a claim from a former employee in the Hong Kong Labour Tribunal which in turn transferred to the Hong Kong High Court for damages arising from the Company's non-recognition of titles to 8,000,000 share options to subscribe for shares in the share capital of the Company in accordance with the alleged share option granted to the former employee under the share option scheme adopted by the Company dated 28th May 1998. At 23rd June 2009, the claim against the Company was dismissed by the Hong Kong High Court.

39. Particulars of Principal Subsidiaries

Details of the Company's principal subsidiaries, all of which, excluding those explained below, are limited liability companies, at 31st March 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
CITIC 21CN Telecom Company Limited	Hong Kong	HK$1,000,000	–	100% (2008: 100%)	System integration and software development
CITIC 21CN (China) Technology Company Limited	PRC	RMB50,000,000	–	100% (2008: 100%)	Provision of product identification, authentication, tracing system business
Guangdong Grand Cycle Technology Company Limited	PRC	HK$21,000,000	–	100% (2008: 100%)	System integration and software development for a term of 50 years commencing December 2002

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Financial Summary

	Year ended 31st March				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**274,645**	233,374	286,057	403,545	249,058
(Loss) profit before taxation	**(145,775)**	(76,400)	(62,212)	19,387	6,315
Taxation	**(2,232)**	(133)	(2,353)	(13,100)	(5,231)
(Loss) profit for the year	**(148,007)**	(76,533)	(64,565)	6,287	1,084
Attributable to:					
Equity holders of the Company	**(148,007)**	(75,860)	(60,998)	9,153	(1,755)
Minority interests	**–**	(673)	(3,567)	(2,866)	2,839
	(148,007)	(76,533)	(64,565)	6,287	1,084

	As at 31st March				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**603,045**	800,373	943,737	1,007,208	449,146
Total liabilities	**(130,986)**	(192,856)	(624,830)	(665,770)	(133,065)
	472,059	607,517	318,907	341,438	316,081
Equity attributable to equity holders of the Company	**472,048**	607,506	318,240	337,765	308,787
Minority interests	**11**	11	667	3,673	7,294
	472,059	607,517	318,907	341,438	316,081