CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED
中 信 21世 紀 有 限 公 司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 0241)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2006

Highlights

CITIC 21CN Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of HK$403,545,000 for the year ended 31st March 2006 representing an increase of 62.0%, compared with previous year, as a result of increase in revenue from telecommunications and information value-added services, system integration and software development.

The Group recorded share of profit from an associate of HK$9,725,00 for the year ended 31st March 2006. The share of profit of an associated company represents the equity income contribution from 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited) ("Dongfang Customs"). The Group completed the acquisition of Dongfang Customs on 31st March 2005, therefore, Dongfang Customs commenced contributing to the Group's results for the year ended 31st March 2006.

The Group recorded a profit before interest, taxes, depreciation and amortization of HK$33,039,000 for the current year as compared to HK$17,216,000 last year.

Audited net profit attributable to shareholders amounted to HK$9,153,000 as compared to loss of HK$1,755,000 of last year.

The basic earnings per share for the current year was HK 0.28 cents.

During the year, the Group adopted for the first time a new accounting standard, Hong Kong Financial Reporting Standard ("HKFRS") 2 Share-based Payment, which requires an expense to be recognized where the Group obtains services in exchange for shares or rights over shares such as share options. On initial adoption of this new accounting standard, the fair values of the share options granted to directors and employees of HK$16,046,000 was recognized as an expense in the income statement in the current year. The share option expense of HK$16,046,000 was not a cash expense to the Group.

During the year, the Company issued US$70,000,000 zero coupon convertible bonds due 2010 and incurred one-off expenses of HK$26,480,000 for the issuance of these convertible bonds. For the year ended 31st March 2006, the Group adopted, for the first time new accounting standards, Hong Kong Accounting Standard ("HKAS") 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for convertible bonds. At 31st March 2006, change in the fair values of the convertible bonds is determined, and the difference of HK$1,420,000 between the fair values of the convertible bonds and the proceeds of the convertible bonds was recognized as an expense in the income statement. The HK$1,420,000 reflected the difference between the fair value and book value of the convertible bonds and was not a cash expense to the Group. Accordingly, a total of HK$27,900,000 has been recognized in the income statement in relation to the convertible bonds.

* *for identification purposes only*

On 3rd March 2006, the Group entered into loan agreements with its jointly controlled entity 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT") in which the Group granted a non-interest bearing two-year loan of US$6,900,000 (HK$53,820,000) to CCIT for the development of Product Identification, Authentication and Tracking System ("PIATS") business. At 31st March 2006, the amount of the loan receivable stated in the consolidated balance sheet was HK$25,664,000 after inter-company balance elimination of the Group's 50% share of CCIT and a fair value adjustment of HK$1,246,000 for deemed interest. Adjustment in fair value of loan receivable arise from the adoption for the first time new accounting standards, HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement for loan receivable. On the initial adoption of these accounting standards, the difference of HK$1,246,000 between the fair value and the loan receivable was recognized as a non-cash expense in the income statement.

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

Before the one-off expenses for the convertible bonds and start up expenses and the non-cash expenses resulting from new accounting standards using fair values to account for the convertible bonds, loan receivable and share options, the Group would have recorded a profit before interest, taxes, depreciation and amortization of HK$79,438,000, net profit attributable to shareholders of HK$55,552,000 and basic earnings per share of HK 1.68 cents. This represents an increase of 215.5% over the previous year's profit before interest, taxes, depreciation and amortization of HK$25,176,000, an increase of 795.3% over the previous year's profit attributable to shareholders of HK$6,205,000 and an increase of 784.2% over the previous year's earnings per share of HK$ 0.19 cents, before the non-cash share option expense of HK$7,960,000 retrospectively booked in the previous year due to HKFRS 2 Share-based Payment.

The directors of the Company (the "Directors") do not recommend the payment of a final dividend.

The Directors is pleased to announce the audited consolidated results of the Group for the year ended 31st March 2006 and the audited consolidated balance sheet as at 31st March 2006 together with the audited comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st March 2006

	Notes	**2006** *HK$'000*	As restated 2005 *HK$'000*
Turnover	*2*	**403,545**	249,058
Cost of sales and services		**(219,482)**	(146,999)
Gross profit		**184,063**	102,059
Other income	*3*	**7,492**	31,507
Distribution costs		**(13)**	(88)
Administrative and other operating expenses		**(135,358)**	(117,982)
Share option expense	*4*	**(16,046)**	(7,960)
Convertible bonds issue expenses	*5*	**(26,480)**	–
Change in fair value of convertible bonds	*5*	**(1,420)**	–
Change in fair value of loan receivable	*6*	**(1,246)**	–
Start up expenses of jointly controlled entity	*7*	**(1,207)**	–
Finance costs		**(123)**	(1,221)
Share of profit of an associate	*8*	**9,725**	–
Profit before taxation	*9*	**19,387**	6,315
Taxation	*10*	**(13,100)**	(5,231)
Profit for the year		**6,287**	1,084
Attributable to:			
Shareholders		**9,153**	(1,755)
Minority interests		**(2,866)**	2,839
		6,287	1,084
		HK cents	*HK cents*
Earnings (loss) per share	*11*		
Basic		**0.28**	(0.05)
Diluted		**0.27**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	31st March 2006 HK$'000	As restated 31st March 2005 HK$'000
Non-current assets			
Property, plant and equipment		**69,698**	57,187
Interest in an associate		**86,387**	76,560
Loan receivable	*6*	**25,664**	–
Available-for-sale investments		**7,737**	–
Other investments		**–**	7,728
Other non-current assets		**–**	1,057
		189,486	142,532
Current assets			
Inventories		**1,532**	703
Amounts due from customers for contract work		**30,468**	3,251
Debtors and prepayments	*12*	**192,744**	166,143
Taxation recoverable		**–**	251
Cash and bank balances		**592,978**	136,266
		817,722	306,614
Current liabilities			
Creditors and accruals	*13*	**97,633**	118,305
Taxation payable		**8,957**	3,177
Short-term bank loans		**11,760**	11,583
		118,350	133,065
Net current assets		**699,372**	173,549
Total assets less current liabilities		**888,858**	316,081
Non-current liabilities			
Convertible bonds	*5*	**547,420**	–
Net assets		**341,438**	316,081
Financed by:			
Share capital		**33,086**	33,044
Reserves		**304,679**	275,743
Shareholders' funds		**337,765**	308,787
Minority interests		**3,673**	7,294
		341,438	316,081

Notes:

1. Accounting policies

(a) *Adoption of new Hong Kong Financial Reporting Standards/Changes in accounting policies*

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April 2005. In relation to share options granted before 1st April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November 2002 and vested before 1st April 2005 (see (b) for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The principal impact of HKAS 32 and HKAS 39 on the Group is in relation to the convertible bonds issued by the Company on 21st December 2005 and 11th January 2006. According to HKAS 32, the conversion option should be classified as equity component only if the option can be converted by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. Upon application of HKAS 32 and HKAS 39, the Group determined that the convertible notes do not contain any equity components because the conversion price for the convertible notes is subject to change and the convertible bonds cannot be converted into a fixed number of the Company's shares. During the year, a loss of HK$1,420,000 in respect of the change in fair value of the convertible bonds was recognised.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities". Under SSAP 24, investments in debt or equity securities are classified as "other investments" as appropriate. Other investments are carried at cost less impairment losses (if any).

From 1st April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition. During the year, a loss of HK$1,246,000 in respect of the adjustment to fair value of loan receivable was recognised.

On 1st April 2005, the Group has reclassified its other investments with a carrying amount of HK$7,728,000 to available-for-sale investments (see (b) for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1st April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

(b) *Summary of the effects of the changes in accounting policies and restatement of figures for 2005*

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006	2005
	HK$'000	*HK$'000*
Income statement item		
Expenses in relation to share options granted to employees included in total staff cost (administrative expenses) and decrease in profit for the year	**16,046**	7,960
Deemed contribution arising from acquisition of an interest in an associate from a shareholder	**–**	19,215
Total decrease in profit	**16,046**	27,175

Balance sheet items

Balance sheet items	**31.3.2005**	**Retrospective adjustments**	**31.3.2005**	**Opening adjustments as at 1.4.2005**	**1.4.2005**
	HK$'000 (originally stated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)
Available-for-sale investments	–	–	–	7,728	7,728
Other investments	7,728	–	7,728	(7,728)	–
		–		–	
Accumulated losses	(228,785)	(11,931)	(240,716)	(19,215)	(259,931)
Capital reserve	–	–	–	19,215	19,215
Share options reserve	–	11,931	11,931	–	11,931

The cumulative effects of the application of the new HKFRSs as at 31st March 2004 and 1st April 2004 are summarised below:

	31.3.2004	**Retrospective adjustments**	**1.4.2004**
	HK$'000 (originally stated)	*HK$'000*	*HK$'000* (restated)
Accumulated losses	(250,662)	(3,971)	(254,633)
Share options reserve	–	3,971	3,971

Other than disclosed above for the effects of the changes in accounting policies, treatment for the discount on acquisition of associate in 2005 was revisited and restated. In preparing the consolidated accounts for the year ended 31st March 2006, the negative goodwill arising from acquisition of an associate, Dongfang Customs, from the substantial shareholder, the CITIC Group, in prior year should be presented as capital contribution from a shareholder and shown as capital reserve in the consolidated accounts. As a result of this prior year adjustment, the Group's accumulated losses as at 1st April 2005 has been increased by HK$19,215,000. The Group's capital reserve as at 1st April 2005 has been increased by HK$19,215,000 which represented the deemed capital contribution from the substantial shareholder, the CITIC Group, made on the Group's acquisition of the associate, Dongfang Customs. There is no impact to the profit for the current year (2005: decreased by HK$19,215,000).

2. Segmental information

The Group is an integrated information and content service provider. The principal activities of the Group are telecommunication and information valued-added services which comprise telecommunication and information valued-added services, the provision of PIATS, system integration and software development. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segment and the secondary segment reporting is by geographical segment. Unallocated results represent corporate income and expenses. Material sales or trading transactions between the business segments are eliminated. All business segments are primarily carried out in Mainland China. Accordingly, a separate summary of geographical segment is therefore not presented.

A summary of the business segments is set out as follows:

	System integration and software development HK$'000	Telecom–munications/ information value-added services HK$'000	Product identification, authentication and tracking system business HK$'000	Eliminations HK$'000	Total HK$'000
Year ended 31st March 2006					
Turnover	**118,522**	**297,588**	**5,149**	**(17,714)**	**403,545**
Segment results	**64,753**	**32,909**	**(2,753)**	**(9,356)**	**85,553**
Other income					**67**
Interest income					**7,425**
Share option expense					**(16,046)**
Convertible bonds issue expenses					**(26,480)**
Change in fair value of convertible bonds					**(1,420)**
Change in fair value of loan receivable					**(1,246)**
Start up expenses of jointly controlled entity					**(1,207)**
Finance costs					**(123)**
Share of profit of an associate					**9,725**
Unallocated corporate expenses					**(36,861)**
Profit before taxation					**19,387**
Taxation					**(13,100)**
Profit for the year					**6,287**
ASSETS					
Segments assets	**121,565**	**134,580**	**25,296**	**–**	**281,441**
Interest in an associate					**86,387**
Loan receivable					**25,664**
Unallocated corporate assets					**613,716**
Consolidated total assets					**1,007,208**
LIABILITIES					
Segment liabilities	**44,043**	**47,435**	**192**	**–**	**91,670**
Taxation liabilities					**8,957**
Unallocated corporate liabilities					**565,143**
Consolidated total liabilities					**665,770**

	System integration and software development *HK$'000*	**Telecom–munications/ information value-added services** *HK$'000*	**Product identification, authentication and tracking system business** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
OTHER INFORMATION					
Capital expenditure	**242**	**12,252**	**11,291**	**2,440**	**26,225**
Depreciation	**399**	**8,378**	**91**	**1,795**	**10,663**

	System integration and software development *HK$'000*	Telecommunications/ information value-added services *HK$'000*	Total *HK$'000*
Year ended 31st March 2005			
Turnover	59,291	189,767	249,058
Segment results	(10,515)	25,358	14,843
Gain on disposal of subsidiaries			13,103
Interest income			441
Share option expenses			(7,960)
Finance costs			(1,221)
Unallocated corporate expenses			(12,891)
Profit after taxation			6,315
Taxation			(5,231)
Profit for the year			1,084
Segment assets	77,356	114,889	192,245
Interest in an associate			76,560
Unallocated assets			180,341
Consolidated total assets			449,146
Segment liabilities	60,257	49,883	110,140
Taxation liabilities			3,177
Unallocated corporate liabilities			19,748
Consolidated total liabilities			133,065

	System integration and software development *HK$'000*	Telecom–munications/ information value-added services *HK$'000*	Others *HK$'000*	Total *HK$'000*
OTHER INFORMATION				
Capital expenditure	111	17,305	4,912	22,328
Depreciation	993	10,874	652	12,519

3. Other income

	2006 *HK$'000*	As restated 2005 *HK$'000*
Negative goodwill		
Acquisition of additional interest in a jointly controlled entity	–	491
Acquisition of subsidiaries by a jointly controlled entity	–	697
Gain on disposal of subsidiaries	–	13,103
Bad debts recovered	–	10,000
Write back of long outstanding payables	–	6,775
Interest	**7,425**	441
Other	**67**	–
	7,492	31,507

4. **Share option expense**

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

5. **Convertible bonds**

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

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

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

6. **Change in fair value of loan receivable**

On 3rd March 2006, the Group entered into loan agreements with CCIT in which the Group granted a non-interest bearing two-year loan of US$6,900,000 (HK$53,820,000) to CCIT for the development of PIATS business. At 31st March 2006, the amount of the loan receivable stated in the consolidated balance sheet was HK$25,664,000 after inter-company balance elimination of the Group's 50% share of CCIT and a fair value adjustment of HK$1,246,000 for deemed interest. Adjustment in fair value of loan receivable arise from the adoption for the first time new accounting standards, HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement for loan receivable. On the initial adoption of these accounting standards, the difference of HK$1,246,000 between the fair value and the face value of the loan receivable was recognized as an expense in the income statement. The effective interest rate applied to the loan receivable was 2.5%.

7. **Start up expenses of jointly controlled entity**

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

8. **Share of profit of an associate**

For the first time this year the Group recorded a share of net profit from a 30%-owned associate, Dongfang Customs, which has became an associate of the Group since 31st March 2005.

9. **Profit before taxation**

	2006	As restated 2005
	HK$'000	*HK$'000*
Profit before taxation is stated after charging the following:		
Directors' remuneration	**2,226**	6,545
Other staff's retirement benefits scheme contributions	**3,045**	2,282
Other staff costs	**62,326**	43,333
Share option expense	**16,046**	7,960
	83,643	60,120
Depreciation	**10,663**	12,519
Operating lease rental expense for land and buildings	**10,589**	6,377
Auditors' remuneration	**2,576**	4,290
Loss on disposal of plant and equipment	**832**	6
Share of tax of an associate (included in share of results of associate)	**108**	–
Net foreign exchange losses	**1,019**	463

10. Taxation

	2006 HK$'000	2005 HK$'000
Company and subsidiaries		
Mainland China (current)	**6,061**	(102)
Jointly controlled entities		
Mainland China (current)	**7,039**	5,333
	13,100	5,231

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong. The tax rate applicable for the jointly controlled entities in PRC ranged from 15% to 33%.

11. Earnings (loss) per share

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

	2006 HK$'000	As restated 2005 HK$'000
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings per share	**9,153**	(1,755)

Number of shares

	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,307,490,057**	3,287,423,186
Effect of dilutive potential ordinary shares:		
Share options	**137,911,873**	
Warrants	**15,169**	
Convertible bonds	**–**	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,445,417,099**	

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in profit per share.

The diluted loss per share for the year ended 31st March 2005 was not presented as the exercise of the shares options and warrants outstanding would result in a decrease in loss per share.

Impact of changes in accounting policies and the restatement of figures for 2005:

Changes in the Group's accounting policies and the restatement of figures 2005 during the year are described in detail in note 1(b). To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on both basic and diluted earnings per share:

	Impact on basic earnings (loss) per share 2006 *cents*	Impact on basic earnings (loss) per share 2005 *cents*	Impact on diluted earnings (loss) per share 2006 *cents*
Figures before adjustments	**0.77**	0.77	**0.74**
Adjustments arising from changes in accounting policies	**(0.49)**	(0.24)	**(0.47)**
Adjustments arising from deemed contribution arising from acquisition of interest in an associate from a shareholder *(note 1(b))*	**–**	(0.58)	**–**
As reported	**0.28**	(0.05)	**0.27**

12. Debtors and prepayments

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**130,765**	123,938
Other receivables *(Note)*	**22,370**	5,009
Deposits and prepayments	**39,609**	37,196
	192,744	166,143

Note: Other receivables included an interest free advance to AQSIQ in order to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK$17,280,000). The amount is repayable on demand.

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

	2006	2005
	HK$'000	*HK$'000*
0-90 days	**100,808**	73,564
90-180 days	**20,281**	23,705
190-360 days	**6,003**	8,418
Over 360 days	**3,673**	18,251
	130,765	123,938

The carrying amount of the Group's debtors at 31st March 2006 approximates to the corresponding fair value.

13. Creditors and accruals

	2006	2005
	HK$'000	*HK$'000*
Trade payables	**65,859**	75,691
Other payables and accruals	**31,774**	36,823
Dividend payable	**–**	5,791
	97,633	118,305

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

	2006	2005
	HK$'000	*HK$'000*
0-90 days	**44,230**	43,280
90-180 days	**9,465**	3,352
190-360 days	**1,709**	2,289
Over 360 days	**10,455**	26,770
	65,859	75,691

The carrying amount of the Group's creditors and accruals at 31 March 2006 approximates to the corresponding fair value.

FINAL DIVIDEND

The Directors do not recommend payment of a final dividend for the year ended 31st March 2006 (2005: nil).

FINANCIAL REVIEW

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

	2006	2005	Growth rate
	HK$'000	*HK$'000*	*%*
Turnover	**403,545**	249,058	62.0
Gross profit	**184,063**	102,059	80.3
Gross profit percentage	**45.6%**	41.0%	N/A
Other income	**7,492**	31,507	(76.2)
Administrative and other operating expenses	**135,358**	117,982	14.7
Share option expense	**16,046**	7,960	101.6
Convertible bonds issue expenses	**26,480**	–	N/A
Change in fair value of convertible bonds	**1,420**	–	N/A
Change in fair value of loan receivable	**1,246**	–	N/A
Start up expenses of jointly controlled entity	**1,207**	–	N/A
Share of profit of an associate	**9,725**	–	N/A
Profit before interest, taxes, depreciation and amortization	**33,039**	17,216	91.9
Profit before interest, taxes, depreciation, amortization and before one-off expenses for the convertible bonds and start up expenses and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**79,438**	25,176	215.5
Net profit (loss) attributable to shareholders	**9,153**	(1,755)	N/A
Net profit attributable to shareholders before one-off expenses for the convertible bonds and start up expenses and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**55,552**	6,205	795.3
Basic earnings (loss) per share			
Net profit (loss) attributable to shareholders	**0.28 cents**	(0.05) cents	N/A
Net profit attributable to shareholders before one-off expenses for the convertible bonds and start up expenses and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**1.68 cents**	0.19 cents	784.2

Diluted earnings per share			
Net profit attributable to shareholders	**0.27 cents**	N/A	N/A
Net profit attributable to shareholders before one-off expenses for the convertible bonds and start up expenses and non-cash expenses resulting from new accounting standards to use fair values to account for the convertible bonds, loan receivable and share options (and retrospective share option expense booked in previous year)	**1.61 cents**	0.19 cents	747.4

Results

– *Turnover*

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

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

(b) Revenue from system integration and software development increased by 99.9% from HK$59,291,000 in last year to HK$118,522,000 in the current year as a result of securing more contracts from China Mobile totalling of approximately RMB80 million, and providing system integration and software development services to HL95 and CCIT as these affiliates upgrade or build up its telecommunication or database infrastructure.

– *Gross profit percentage*

The gross profit percentage of the Group during the year ended 31st March 2006 improved to 45.6% from 41.0% of the previous year mainly because of the increased margin in 廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle"), the Group's business unit engaged in software development and system integration services. During the year, Grand Cycle has focussed on projects with higher margins and larger contract sums.

– *Other income*

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

– *Administrative and other operating expenses*

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

– *Share of profit of an associate*

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

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

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

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

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

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

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

SIGNIFICANT INVESTMENT AND CAPITAL EXPENDITURE
During the year ended 31st March 2006

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

On 26th August 2005, CITIC 21CN DIGITAL TELEVISION AND MOVIES LIMITED ("CITIC 21CN DIGITAL"), an indirectly wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "JV Agreement") with 河北電視台 (Hebei Television Station China, "Hebei TV") pursuant to which Hebei TV and CITIC 21CN DIGITAL agree to establish a joint venture company (the "JV Company") which will be engaged in, inter alia, (i) development of digital television and multi services technology platform; (ii) development of new digital television technology; (iii) distribution, sales and leasing of set-top boxes; and (iv) acquisition of program contents and set up of program content library for digital television.

The JV Company will be owned as to 51% by Hebei TV and 49% by CITIC 21CN DIGITAL. Upon the establishment of the JV Company, it will become a jointly controlled entity of the Group.

Pursuant to the JV Agreement, the registered capital of the JV Company will be RMB70,000,000, 51% of which or RMB35,700,000 is to be contributed by Hebei TV in the form of intangible and tangible assets, and 49% or RMB34,300,000 by CITIC 21CN DIGITAL in the form of cash.

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

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

Subsequent to year end on 31st March 2006

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

On 30th May 2006 the Group entered into an ordering document and agreement with Oracle in which the Group acquired database management software and middleware from Oracle.

The contract sum consists of the license fees and the support fees as detailed below to be payable in cash:

Fee types	**Amount** *RMB'000*
License fees	72,203
Support fees	15,885
	88,088

License fees are paid for obtaining the unlimited deployment right of Oracle database management software and middleware. Support fees are paid annually for technical support on the database management software and middleware.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

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

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

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

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

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

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

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

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

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

BUSINESS REVIEW

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

- **CCIT**

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

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

Future prospect

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

- **HL95**

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

  Future prospect

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

- **Dongfang Customs**

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

  Future prospect

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

- **Grand Cycle**

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

  Future prospect

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

- **Hebei TV**

  Hebei TV is in the process of formation.

Future prospect

The Group plans to participate in the PRC's national project to digitalize all television broadcasting in the PRC in year 2010 and thus entered into the JV Agreement. The Directors consider that, leveraging on the Group's business network in the PRC and its expertise in information technology and PRC media-related business, and together with the promising prospects of digital television business in the PRC, the formation of the JV Company will further expand the Group's business coverage in the PRC media industry and earning base, from which the future development of the Group will be benefited. The Group plans to expand the scope of such business to other provinces in the future if appropriate.

EMPLOYEES AND REMUNERATION POLICIES

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

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

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

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

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

CORPORATE GOVERNANCE

In the opinion of the Directors, throughout the year ended 31st March 2006, 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 87 (1) of the Company's Bye-Laws. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable.
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. Only part of the board members attended in the annual general meeting of the Company held on 19th August 2005. The directors present thereat conducted the meeting in a good and proper manner.

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 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.

PURCHASE, SALE OR REDEMPTON OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31st March 2006.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st March 2006 have been agreed by Deloitte Touche Tohmatsu ("Deloitte") to the amounts set out in the Group's financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

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 Company has set up an Remuneration Committee, comprised of three independent non-executive directors of the Company, namely Mr. Liu Hongru, Mr. Hui Ho Ming, Herbert, JP and Mr. Zhang Jian Ming with Mr. Liu Hongru as Chairman of the Remuneration Committee. The Remuneration Committee reviewed the director's fee paid to the non-executive directors and one executive director in accordance with the relevant terms of reference.

Audit Committee

The Audit Committee comprises the three Independent Non-Executive Directors with Mr. Hui Ho Ming, Herbert, JP as Chairman of the Committee. The duties of the Audit Committee include, inter alia, the review and supervision of the Group's financial report process and internal control systems. The Audit Committee has reviewed the Group's annual results for the year ended 31st March 2006 and has also discussed auditing, internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The information as required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course (http://www.hkex.com.hk).

By order of the Board
CITIC 21CN COMPANY LIMITED
Chen Xiao Ying
Executive Vice-Chairman

Hong Kong, 17th July 2006

As at the date of this announcement, the Board comprises nine directors, of which (i) six are executive directors, namely Mr. Wang Jun, Ms. Chen Xiao Ying, Mr. Luo Ning, Mr. Sun Yalei, Mr. Zhang Lian Yang and Ms. Xia Guilan; and (ii) three are independent non-executive directors, namely Mr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Liu Hongru.