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 2005

Highlights

The Group recorded a turnover of HK$249,058,000 for the year ended 31st March 2005 representing an increase of 52% as compared with previous year as a result of proportionate consolidation of the turnover of HL95, a jointly controlled entity of the Group specializing in Telecom VAS services. Operating results of Dongfang Customs Technology have not been included in the Group's results for the year ended 31st March 2005 since the acquisition was completed on 31st March 2005.

The Group recorded an operating profit of HK$34,711,000 for the current year as compared to an operating loss of HK$800,000 last year.

Audited net profit attributable to shareholders amounts to HK$25,420,000 as compared to a loss of HK$2,035,000 last year.

The basic earnings per share for the current year is HK 0.77 cent.

The Directors do not recommend the payment of final dividend.

The board of directors (the "Directors") of CITIC 21CN COMPANY LIMITED (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March 2005 together with the audited comparative figures as follows :

* *for identification purposes only*

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2005 HK$'000	As restated 2004 HK$'000
Turnover	2	**249,058**	163,947
Cost of sales and services		**(146,999)**	(136,857)
Gross profit		**102,059**	27,090
Other revenues	3	**50,722**	14,150
Distribution costs		**(88)**	(1,189)
Administrative and other operating expenses		**(117,982)**	(41,754)
Net profit on discontinuing operations	4	**–**	903
Operating profit/(loss)	5	**34,711**	(800)
Finance costs		**(1,221)**	(578)
Profit/(loss) before taxation		**33,490**	(1,378)
Taxation	6	**(5,231)**	(1,371)
Profit/(loss) after taxation		**28,259**	(2,749)
Minority interests		**(2,839)**	714
Profit/(loss) attributable to shareholders		**25,420**	(2,035)
		HK cents	*HK cents*
Earnings/(loss) per share	7		
Basic		**0.77**	(0.06)
Diluted		**0.76**	N/A

Notes:

1. Accounting policies

The accounts have been prepared under the historical cost convention in conforming with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has adopted in advance of the effective date the following new HKFRSs that are believed to have the most material effect on the Group's accounts for the year ended 31st March 2005:

Hong Kong Financial Reporting Standard 3 (new "HKFRS 3")	Business Combinations
Hong Kong Accounting Standard 31 (revised "HKAS 31")	Interests in Joint Ventures
Hong Kong Accounting Standard 36 (revised "HKAS 36")	Impairment of Assets
Hong Kong Accounting Standard 38 (revised "HKAS 38")	Intangible Assets

The key impact to the accounts of the Group on adopting these new HKFRSs is as follows:

(i) proportionate consolidation method under HKAS 31 was applied for accounting the Group's investment in a jointly controlled entity;

(ii) amortisation of negative goodwill ceased from 1st April 2004; and

(iii) negative goodwill as at 1st April 2004 has been derecognised and credited to equity.

HKAS 31 has been adopted retrospectively, as required under the standard. As a result, the comparative figures for the consolidated balance sheet as at 31st March 2004 and the consolidated profit and loss account and consolidated cash flow statement for the year ended 31st March 2004 have been restated, but the change has no effect on the reserves of the Group as at 31st March 2004.

HKFRS 3, HKAS 36 and HKAS 38 have been applied prospectively in accordance with the transitional provisions in the respective standards. In particular, negative goodwill arising on acquisition as at 1st April 2004 has been derecognised in accordance with the transitional provision of HKFRS 3, resulting in an increase in reserves of HK$4,854,000 as at 1st April 2004 and a decrease in negative goodwill of the same amount.

HKFRS 3 permits to apply the requirements of the Standard from any date before the effective date, provided:

(i) the valuations and other information needed to apply the HKFRS to past business combinations were obtained at the time those combinations were initially accounted for; and

(ii) the entity also applies the revised versions of HKAS 36 and HKAS 38 prospectively from that same date, and the valuations and other information needed to apply those standards from that date were previously obtained by the entity so that there would be no need to determine estimates that would need to have been made at a prior date.

However, HKAS 36 and HKAS 38 do not have impact to the Group.

The Group has not early adopted the other new HKFRSs except for those mentioned above in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of the other new HKFRSs and considered that the following new HKFRSs may have an impact to the Group's results of operations and financial position:

HKFRS 2	Share – based payment
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 39	Financial instruments: Recognition and measurement

The Directors however consider that, apart from HKFRS 2, the impact of those new HKFRSs would not be significant.

2. **Segmental information**

The principal activities of the Group are telecommunication valued-added services, operation of a platform for electronic customs processing and system integration and software development. All business segments are primarily carried out in Mainland China, accordingly, a separate summary by geographical segment is not presented. Set out below is the segmental information by business segments in accordance with the Group's internal financial reporting and operating activities. Unallocated results represent corporate income and expenses and there were no sales or trading transactions between the business segments.

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

	Telecommunication value-added services *HK$'000*	**Operation of a platform for electronic customs processing** *HK$'000*	**System integration and software development** *HK$'000*	**Corporate** *HK$'000*	**Total** *HK$'000*
Year ended 31st March 2005					
Turnover	**189,767**	**–**	**59,291**	**–**	**249,058**
Segment results	**25,358**	**19,215**	**1,151**	**(11,013)**	**34,711**
Finance costs					**(1,221)**
Profit before taxation					**33,490**
Taxation					**(5,231)**
Profit after taxation					**28,259**
Minority interests	**(2,842)**	**–**	**3**	**–**	**(2,839)**
Profit for the year					**25,420**

	Telecom-munication value-added services *HK$'000*	System integration and software development *HK$'000*	Property investment *HK$'000*	Telecom-munication *HK$'000*	Corporate *HK$'000*	Total *HK$'000*
Year ended 31st March 2004, as restated						
Turnover	24,493	137,228	2,226	–	–	163,947
Segment results	4,224	1,428	918	–	(8,273)	(1,703)
(Loss)/gain on discontinuing operations	–	–	(533)	1,436	–	903
Operating loss						(800)
Finance costs						(578)
Loss before taxation						(1,378)
Taxation						(1,371)
Loss after taxation						(2,749)
Minority interests	709	5	–	–	–	714
Loss for the year						(2,035)

3. Other revenues

	2005 **HK$'000**	As restated 2004 *HK$'000*
Negative goodwill	**20,403**	–
Gain on disposal of subsidiaries	**13,103**	–
Bad debts recovered	**10,000**	7,000
Write back of long outstanding payables	**6,775**	–
Provision for litigation written back	**–**	6,868
Interest	**441**	282
	50,722	14,150

4. Discontinuing operations

	2005 **HK$'000**	2004 *HK$'000*
Profit/(loss) on disposal of the following discontinuing operations		
Telecommunication *(note a)*	**–**	1,436
Property investment *(note b)*	**–**	(533)
	–	903

Notes:

(a) The telecommunication business was carried out by Wanbao Telecom (H.K.) Company, Limited ("Wanbao"), in which the Group had a 36% equity interest. On 31st March 2004, the Group entered into agreements with the other shareholders of Wanbao, under which the Group terminated its commitment in respect of Wanbao and disposed of all its interest in Wanbao.

(b) During the year ended 31st March 2004, the Group transferred all its investment properties and leasehold land and buildings in Mainland China to a wholly-owned subsidiary, which was then disposed of to two subsidiaries of CITIC Group, a substantial shareholder of the Company.

5. Operating profit/(loss)

	2005 **HK$'000**	As restated 2004 *HK$'000*
Operating profit/(loss) is stated after charging the following:		
Cost of inventories sold and service provided	**135,292**	127,828
Depreciation	**12,519**	2,578
Staff costs	**52,160**	23,257
Operating lease rental expense for land and buildings	**6,377**	1,917
Auditors' remuneration	**4,290**	1,198
Outgoings in respect of investment properties	**–**	303

6. Taxation

	2005	As restated 2004
	HK$'000	*HK$'000*
Company and subsidiaries		
Mainland China (current)	**(102)**	359
Jointly controlled entities		
Mainland China (current)	**5,333**	1,012
	5,231	1,371

Income tax and profits tax have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the places in which the Group operates. These rates range from 15% to 33% and the rate applicable to Hong Kong profits tax is 17.5% (2004: 17.5%).

7. Earnings/(loss) per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK$25,420,000 (2004: loss of HK$2,035,000) and on the weighted average of 3,287,423,186 (2004: 3,139,568,795) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March 2005 is based on the following:

	Number of Shares
Weighted average number of shares for calculating basic earnings per share	3,287,423,186
Effect of dilutive potential shares	
Share options	54,010,629
Warrants	–
Weighted average number of shares for calculating diluted earnings per share	3,341,433,815

The diluted loss per share for the year ended 31st March 2004 was not presented as the exercise of the share options outstanding as at 31st March 2004 would not have a dilutive effect on the loss per share.

FINAL DIVIDEND

The Directors do not recommend payment of a final dividend for the year ended 31st March 2005 (2004: nil).

FINANCIAL REVIEW

Results

Turnover of the Group for the year surged substantially from HK$163,947,000 to HK$249,058,000 which represents an increase of 52% as compared with the previous year. The significant increase for the current year is mainly due to the full year revenue contribution from 北京鴻聯九五訊息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited*) ("HL95")'s Telecom VAS business whereas HL95 only provided 1.5 months of turnover in the previous year since the Group acquired 45% of HL95 in February 2004 and an additional 4% of HL95 in June 2004. A substantial portion of the Group's turnover for the current year was due to its proportionate share of turnover of HL95's Telecom VAS business which amounts to HK$189,767,000 (2004: HK$24,493,000).

The Group recorded an operating profit of HK$34,711,000 for the year as opposed to an operating loss of HK$800,000 last year. The Group has also turned around from a net loss of HK$2,035,000 to a net profit attributable to shareholders of HK$25,420,000 in the current year. The operating profit for the current year was mainly attributable to:

(1) contribution of HK$25,358,000 operating profit from HL95;

(2) recovery of HK$10,000,000, being a debt which was previously fully provided for;

(3) write back of certain long outstanding payables of HK$6,775,000;

(4) negative goodwill of HK$20,403,000 arising mainly from the acquisition of 30% equity interest of 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited*) ("Dongfang Customs Technology") and acquisition of additional interest in HL95; and

(5) gain on disposal of certain subsidiaries to third parties amounting to HK$13,103,000.

Significant investments and capital expenditures

In June 2004, approval from relevant government authorities on the acquisition of an additional 4% of HL95 was obtained and HK$3,028,000 was paid for such acquisition. As a result, the Group's equity interest in HL95 increased from 45% to 49% during the year.

On 20th September 2004, the Group entered into a sale and purchase agreement with its substantial shareholder, CITIC Group, where the Group would acquire 30% equity interest in Dongfang Customs Technology from the CITIC Group. The acquisition was completed on 31st March 2005 and the consideration amounted to RMB59,806,211 (equivalent to approximately HK$56,636,000) which was settled in cash upon completion.

An agreement was entered into on 20th January 2005 to establish a joint venture company, 中信國檢信息技術有限公司 (CITIC Quality Supervision Information Technology Co. Ltd.*) ("CITIC QSIT") of which the Group will have 50% equity interest. In accordance with the joint venture agreement, the total investment in CITIC QSIT is RMB150,000,000 (equivalent to approximately HK$141,509,000). The registered capital is RMB60,000,000 (equivalent to approximately HK$56,604,000), of which RMB30,000,000 (equivalent to approximately HK$28,302,000) has been contributed by the Group, as at 31st March, 2005. The Group has also agreed to advance to CITIC QSIT RMB18,000,000 on behalf of 中華人民共和國國家質量監督檢驗檢疫總局信息中心 ("Information Centre of the General Administration of Quality Supervision, Inspection and Quarantine of the PRC*") ("AQSIQ") which represents AQSIQ's capital contribution in view of the importance to the operation of CITIC QSIT. As of 31st March 2005, the advance on behalf of AQSIQ has not yet been made.

Liquidity, Financial Resources and Foreign Exchange Exposures

The total assets of the Group as at 31st March 2005 was HK$449,146,000 which was financed by shareholders' fund of HK$308,787,000, current liabilities of HK$133,065,000 and minority interest of HK$7,294,000. The current ratio of the Group as at 31st March 2005 was 2.3.

The outstanding bank loans of the Group amounted to HK$11,583,000 as at 31st March 2005 which were repayable within one year and carries interest at prevailing market rate. All bank loans are denominated in Renminbi, of which HK$3,956,000 related to the operation of the system integration business and was secured by bank deposits of HK$5,000,000, and the remaining balance of HK$7,627,000 related to the portion of loan attributable to the Group in HL95, a jointly controlled entity, which was guaranteed by the major shareholder of HL95. The gearing ratio, calculated as the interest-bearing bank borrowings over the shareholders' funds, was only 3.75%.

At 31st March 2005, bank deposits of HK$6,057,000 are restricted, of which HK$5,000,000 has been pledged as securities for a short term bank loan and is not classified as a non-current asset and the remaining balance of HK$1,057,000 is included in non-current assets.

In February 2005, the Company successfully raised funds by way of a right issue of warrants at a subscription price of HK$0.10 per warrant on the basis of one warrant for every six shares of the Company. A total of 550,697,664 warrants were subscribed and an aggregate subscription sum of HK$55,069,766 was received. Each warrant can be converted to one share at an exercise price of HK$2.40. The warrants are exercisable within 18 months from the date of issue. If all warrants were exercised within 18 months, a balance of HK$1,321,674,000 will be received by the Company from issue of new shares of the Company.

The Group's operation and transactions are principally located in the People's Republic of China (the "PRC") and all assets and liabilities are mainly denominated either in Hong Kong dollars or Renminbi. The Directors believe that Renminbi would be stable for the foreseeable future and the operations of the Group are not subject to significant exchange risk.

BUSINESS REVIEW

Telecom VAS business

The Group's results from Telecom VAS business are derived from the investment in a 49% jointly controlled entity, HL95. HL95 is one of the leading nationwide Telecom VAS companies in the PRC, with prominent brand name and nationwide coverage. HL95 provides fixed line and mobile phone users in the PRC with the largest interactive voice response system ("IVRS") and short messages services ("SMS") coverage, offering governmental, commercial and entertainment contents.

The turnover of HL95 for the current year was HK$403,307,000 (for the period from 11th February to 31st March 2004: HK$55,522,000) and the Group's proportional share was HK$189,767,000 (for the period from 11th February to 31st March 2004: HK$24,493,000). The Group's share of HL95's turnover increased in current year because of full year consolidation of HL95 in the current year, whereas in the previous year the Group's turnover only included 1.5 months' of HL95's turnover.

The turnover of HL95 can be analysed as approximately 38% (2004: 43%) from IVRS, 34% (2004: 44%) from SMS, 12% (2004: 10%) from Internet-protocol phone, 14% (2004: 2%) from call centres and 2% (2004: 1%) from other operations. As compared with the turnover in the previous year, turnover from IVRS and SMS showed a drop of 5% and 10% respectively. Such drop was mainly due to actions taken by telecommunication service operators to tighten the industry regulations during the current year. Such actions caused certain negative impact in the industry and as a result hindered the development and growth of the SMS and IVRS business of HL95 for the current year. However, the Group believes that such regulatory measures have long-term positive impact to HL95 and the industry as a whole.

Net profit of HL95 for the current year was HK$35,845,000 (for the period from 11th February to 31st March 2004: HK$4,671,000) and the Group's proportionate share was HK$16,998,000 (for the period from 11th February to 31st March 2004: HK$2,102,000). In current year, HL95 expanded its product range to Telecom VAS services that contribute higher margins such as Information Processing Centre, a call center service established in Beijing in early 2004.

As HL95 has already set up a nationwide network with coverage to over 300 cities, and with its nationwide uniform access number for both fixed line and mobile phones, HL95 has strengthened its role as a Telecom VAS provider which will support the Group in its future development.

Dongfang Customs Technology

Dongfang Customs Technology provides the platform for import and export enterprises, manufacturers and trading companies in the PRC with electronic customs processing, other electronic government services and electronic commerce transactions capability, as well as identifying authenticity, online payments and billing services. The shareholders of Dongfang Customs Technology comprise 中國電子口岸數據中心 (China Electronic Customs Data Centre*) which is an organization directly under the PRC Customs, 中國電信集團公司 (China Telecommunications Corporation*) and the Group. Dongfang Customs Technology is the only operator in China providing the access platform for electronic customs clearance and processing services in the PRC. Using this advanced technology, enterprises in the PRC can save time in customs processing so that business transactions will be more interactive, accurate and timely, enhancing import and export efficiency.

Dongfang Customs Technology recorded revenue of RMB92,166,265 and net profit of RMB56,771,352 for the 15 months ended 31st March 2005. However, the necessary approvals for the acquisition of the 30% of Dongfang Customs Technology were completed on 31st March 2005. Accordingly, the results of Dongfang Customs Technology have not been incorporated into the Group's results for the year ended 31st March 2005. The Group has early adopted new or revised HKAS 36 and 38 and HKFRS 3 in the preparation of financial statements for the year ended 31st March 2005 which result in a change of accounting policy for goodwill recognition. As of the completion date of the acquisition, the fair value of net assets of Dongfang Customs Technology was ascertained at HK$255,201,000 by reference to valuation report issued by professional valuer Sallmanns, resulting in a negative goodwill on acquisition of HK$19,215,000 being recorded as other revenue.

The Group anticipates that the number of users will increase in line with the economic growth of the PRC. The number of customers increased from approximately 130,000 as at 31st March 2004 to about 200,000 as at 31st March 2005. The Group is optimistic that the number of users of Dongfang Customs Technology will continue to grow since there is no other operator for electronic customs clearance and processing in the PRC.

System Integration and Software Development

Guangdong Tian Tu Technology Co. Ltd. ("Tian Tu") is one of the subsidiaries engaging in the system integration and software development business in the PRC. The revenue derived from the sale of computer products, provision of system integration services and software development business for the current year was HK$59,291,000 (2004: HK$137,228,000) and the attributable profit for the year was HK$939,000 (2004: HK$1,433,000). The decrease in turnover for the current year was mainly attributable to the severe competition in the system integration business resulting in lower profit margins. As a result, the management decided to focus more on the software development and technical support services. The management also plans to utilizes the technical expertise of Tian Tu to provide service to other business units of the Group.

PROSPECT AND OUTLOOK

As a pioneer in the Telecom VAS in the PRC, the Group will strive to develop more information value added services in cooperation with governmental agencies to provide service to businesses in the PRC.

HL95, with its enormous nationwide network distribution coverage, provides the platform for consumers all over the PRC to access Telecom VAS provided by the Group easily. Since many consumers across the PRC are already using HL95's various Telecom VAS, it provides a scalable platform for the Group to launch other information and Telecom VAS.

Dongfang Customs Technology is the only operator in the PRC which provides electronic customs clearance and processing services. The Group's investment in Dongfang Customs Technology allows it to expand into other information and Telecom VAS.

On 20th January 2005, the Group has entered into a joint venture agreement to establish CITIC QSIT, with AQSIQ and China Telecommunications Corporation where the Group has an equity interest of 50%. The objective for the formation of CITIC QSIT is to provide a system to identify, authenticate and track products manufactured in the PRC through the operation of the Quality Supervision Platform ("QSP") in order to reduce the impact of forged products and provide logistic and supply chain management services. QSP is the only product identification, authentication and tracking platform in the PRC that cooperates with the government authority AQSIQ. AQSIQ is the central government department responsible for the administration, supervision and enforcement of laws to tackle forged products. Every product passing through QSP will be allocated a unique code that stores information of a product's specifications, logistics and distribution details. A consumer who has doubts about a product can check whether the product is genuine or not by accessing the QSP through various telecom channels such as mobile phone, fixed-line phone, internet or enquiry terminals at shopping centres. The commercial launch of the services of QSP is expected to begin in the second half year of 2005.

With Dongfang Customs Technology, the access point of the "China Electronic Customs" and QSP, which can access the databank of AQSIQ on products manufactured in the PRC, the Group will further strengthen its position in information and Telecom VAS platform for business and government applications.

The Group also plans to participate in the PRC's national project to digitalize all television broadcasting in the PRC by year 2010. The Group has announced its intention to establish joint venture with Hebei Board of Radio and Television to provide various digital media-related services on an exclusive basis. The Group plans to expand the scope of such business to other provinces in the future if appropriate.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st March 2005.

HUMAN RESOURCES

As at 31st March 2005, the Group employed a total of 67 full-time employees, of whom 13 were based in Hong Kong and 54 were based in mainland China. Total staff costs for the year amounted to HK$52,160,000 of which HK$33,316,000 was attributable to the jointly controlled entity. 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, exercisable period and the number of options to be granted are determined in accordance with the prescribed terms of the schemes. During the year, a total of 73,300,000 share options were granted to a director and employees.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

AUDIT COMMITTEE

The final results of the Group for the year ended 31st March 2005 have been reviewed by the audit committee of the Company. The audit committee comprises of three independent non-executive directors, Mr. Tsui Yiu Wa, Alec, Mr. Zhang Jian Ming and Mr. Liu Hongru. The audit committee has met three times during the year to review financial issues and make recommendation to the Directors for approval of interim and annual accounts. Its duties include, inter alia, the review and supervision of the Group's financial reporting process and internal control systems.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year ended 31st March 2005 with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was still in force prior to 1st January 2005 and remains applicable to the year under review, except that the independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code") as a code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year and they all confirmed that they have fully complied with the required standard set out in the Model Code.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (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, 4th July 2005

As at the date of this announcement, the board of directors of the Company comprises eight executive directors, namely Mr. Wang Jun, Ms. Chen Xiao Ying, Mr. Luo Ning, Mr. Sun Yalei, Mr. Zhang Lian Yang, Mr. Yin Yiping, Ms. Xia Guilan and Dr. Liu Xiaoping and three independent non-executive directors, namely Mr. Tsui Yiu Wa, Alec, Mr. Zhang Jian Ming and Mr. Liu Hongru.