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 2007

HIGHLIGHTS

CITIC 21CN Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded a turnover of HK$286,057,000 for the year ended 31st March 2007 representing a decrease of 29.1%, compared with previous year, as a result of the fall in revenue from telecommunications/information value-added services, system integration and software development, and Product Identification, Authentication and Tracking System ("PIATS") businesses.

The Group recorded share of profit from an associate of HK$6,718,000 for the year ended 31st March 2007, representing a decrease of 30.9% when compared with previous year. 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 recorded a loss before interest, taxes, depreciation and amortization, and after minority interests of HK$45,684,000 for the current year as compared to the profit before interest, taxes, depreciation and amortization, and after minority interests of HK$33,039,000 of last year.

Audited net loss attributable to shareholders amounted to HK$60,998,000 as compared to profit of HK$9,153,000 of last year.

The basic loss per share for the current year was HK1.84 cents as compared to basic earnings per share of HK0.28 cents of last year.

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 2007 and the audited consolidated balance sheet as at 31st March 2007 together with the audited comparative figures as follows:

* *For identification purposes only*

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	2	**286,057**	403,545
Cost of sales and services		**(221,127)**	(219,482)
Gross profit		**64,930**	184,063
Other income	3	**27,098**	7,492
Distribution costs		**(15)**	(13)
Administrative expenses		**(139,143)**	(135,358)
Share option expense	4	**(1,272)**	(16,046)
Convertible bonds issue expenses	5	**-**	(26,480)
Change in fair value of convertible bonds	5	**(19,807)**	(1,420)
Change in fair value of loan receivable	6	**-**	(1,246)
Start up expenses of jointly controlled entity	7	**-**	(1,207)
Share of profit of an associate	8	**6,718**	9,725
Finance costs		**(721)**	(123)
(Loss) profit before taxation	9	**(62,212)**	19,387
Taxation	10	**(2,353)**	(13,100)
(Loss) profit for the year		**(64,565)**	6,287
Attributable to:			
Equity holders of the Company		**(60,998)**	9,153
Minority interests		**(3,567)**	(2,866)
		(64,565)	6,287
		HK cents	HK cents
(Loss) earnings per share	11		
Basic		**(1.84)**	0.28
Diluted		**N/A**	0.27

CONSOLIDATED BALANCE SHEET

	Notes	31st March 2007 HK$'000	31st March 2006 HK$'000
Non-current assets			
Property, plant and equipment		**98,691**	69,698
Intangible assets		**72,013**	-
Interest in an associate		**93,276**	86,387
Loan receivable	*6*	**-**	25,664
Available-for-sale investments		**7,173**	7,737
		271,153	189,486
Current assets			
Inventories		**1,110**	1,532
Amounts due from customers for contract work		**17,974**	30,468
Debtors and prepayments	*12*	**157,293**	192,744
Taxation recoverable		**522**	-
Investments held for trading		**15,395**	-
Loan receivable	*6*	**26,306**	-
Bank balances and cash		**453,984**	592,978
		672,584	817,722
Current liabilities			
Creditors and accruals	*13*	**68,692**	97,633
Taxation payable		**-**	8,957
Short-term bank loans		**12,373**	11,760
		81,065	118,350
Net current assets		**591,519**	699,372
Total assets less current liabilities		**862,672**	888,858
Non-current liability			
Convertible bonds	*5*	**543,765**	547,420
Net assets		**318,907**	341,438
Capital and reserves			
Share capital		**33,370**	33,086
Reserves		**284,870**	304,679
Equity attributable to equity holders of the Company		**318,240**	337,765
Minority interests		**667**	3,673
Total equity		**318,907**	341,438

Notes:

1. Significant accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

(b) Adoption of new and revised Hong Kong Financial Reporting Standards

During the year ended 31st March 2007, the Group has applied, for the first time, a number of new HKFRSs, HKASs and INTs (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA, which are effective for accounting periods beginning on or after 1st December 2005, 1st January 2006 or 1st March 2006. The application of the new HKFRSs has 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 HKFRSs, HKASs and INTs that have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 23 (Revised)	Borrowing costs [2]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC) - Int 8	Scope of HKFRS 2 [3]
HK(IFRIC) - Int 9	Reassessment of embedded derivatives [4]
HK(IFRIC) - Int 10	Interim financial reporting and impairment [5]
HK(IFRIC) - Int 11	HKFRS 2: Group and treasury share transactions [6]
HK(IFRIC) - Int 12	Service concession arrangements [7]

[1] Effective for annual periods beginning on or after 1st January 2007
[2] Effective for annual periods beginning on or after 1st January 2009
[3] Effective for annual periods beginning on or after 1st May 2006
[4] Effective for annual periods beginning on or after 1st June 2006
[5] Effective for annual periods beginning on or after 1st November 2006
[6] Effective for annual periods beginning on or after 1st March 2007
[7] Effective for annual periods beginning on or after 1st January 2008

The Directors anticipate that the application of the above new HKFRSs, HKASs and INTs will have no material impact on the results and the financial position of the Group.

2. Segmental information

Business segments

The Group is an integrated information and content service provider. For management purposes, the Group is organized into three operating divisions namely telecommunications/information valued-added services, the provision of 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

Unallocated results represent corporate income and expenses. Material sales or trading transactions between the business segments are eliminated. A summary of the business segments is set out 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 2007				
Turnover	**274,657**	**911**	**10,489**	**286,057**
Segment results	**(2,339)**	**(28,071)**	**(5,529)**	**(35,939)**
Other income				**3,707**
Interest income				**23,391**
Share option expense				**(1,272)**
Change in fair value of convertible bonds				**(19,807)**
Share of profit of an associate				**6,718**
Finance costs				**(721)**
Unallocated corporate expenses				**(38,289)**
Loss before taxation				**(62,212)**
Taxation				**(2,353)**
Loss for the year				**(64,565)**
ASSETS				
Segments assets	**120,787**	**121,015**	**86,841**	**328,643**
Interest in an associate				**93,276**
Unallocated corporate assets				**521,818**
Consolidated total assets				**943,737**
LIABILITIES				
Segment liabilities	**31,694**	**13,766**	**15,500**	**60,960**
Unallocated corporate liabilities				**563,870**
Consolidated total liabilities				**624,830**

	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	**6,168**	**31,809**	**-**	**25**	**38,002**
Additions of intangible assets	**-**	**72,925**	**-**	**-**	**72,925**
Depreciation	**7,538**	**1,642**	**153**	**1,995**	**11,328**
Amortization of intangible assets	**-**	**912**	**-**	**-**	**912**

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Eliminations HK$'000	Total HK$'000
Year ended 31st March 2006					
Turnover	297,588	5,149	118,522	(17,714)	403,545
Segment results	32,909	(2,753)	64,753	(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)
Share of profit of an associate					9,725
Finance costs					(123)
Unallocated corporate expenses					(36,861)
Profit before taxation					19,387
Taxation					(13,100)
Profit for the year					6,287
ASSETS					
Segments assets	134,580	25,296	121,565	-	281,441
Interest in an associate					86,387
Unallocated corporate assets					639,380
Consolidated total assets					1,007,208
LIABILITIES					
Segment liabilities	47,435	192	44,043	-	91,670
Taxation liabilities					8,957
Unallocated corporate liabilities					565,143
Consolidated total liabilities					665,770

	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	12,252	11,291	242	2,440	26,225
Depreciation	8,378	91	399	1,795	10,663

Geographical segments

All business segments are primarily carried out in the PRC. Accordingly, a separate summary of geographical segment is therefore not presented.

3. Other income

	2007	2006
	HK$'000	*HK$'000*
Interest income from bank deposits	**20,725**	7,425
Interest income from other deposit	**2,024**	-
Imputed interest income from loan receivable	**642**	-
Change in fair value of held for trading investments	**3,236**	-
Others	**471**	67
	27,098	7,492

4. Share option expense

Share option expense represents a non-cash expense recorded by the Group in accordance with the requirements of 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.

The Group recognized expense of HK$1,272,000 for the year ended 31st March 2007 (2006: HK$16,046,000) in relation to share options granted by the Company.

5. Convertible bonds

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 changes in fair value of the Bonds are recognized in the income statement.

During the year ended 31st March 2007, a loss on change in fair value of the Bonds of HK$19,807,000 (2006: HK$1,420,000) is recognized in the income statement.

During the year ended 31st March 2006, the Group incurred one-off professional fees and expenses of HK$26,480,000 for the issuance of these convertible bonds.

6. Change in fair value of loan receivable

On 3rd March 2006, CITIC 21CN Telecom Company Limited (a wholly owned subsidiary of the Group), entered into loan agreements 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 to CCIT for the development of PIATS business.

As at 31st March 2007, the fair value of the Group's share of the loan receivable was HK$26,306,000 (2006: HK$25,664,000), determined based on the present value of the estimated future cash flows discounted using effective interest rate of 2.5%. Interest income of HK$642,000 from the loan receivable is recognized as other income in the income statement for the year ended 31st March 2007. During the year ended 31st March 2006, 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.

7. Start up expenses of jointly controlled entity

During the year ended 31st March 2006, 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") of the PRC, 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

The Group recorded a share of net profit from a 30%-owned associate, Dongfang Customs Technology Company Limited.

9. (Loss) profit before taxation

	2007	2006
	HK$'000	*HK$'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,860**	2,226
Other staff's retirement benefits scheme contributions	**1,503**	3,045
Other staff costs	**60,539**	62,326
Share option expense	**1,272**	16,046
Total staff costs	**66,174**	83,643
Amortization of intangible assets (included in cost of sales and services)	**912**	-
Depreciation	**11,328**	10,663
Cost of inventories recognized as an expense	**7,210**	34,907
Operating lease rentals in respect of buildings	**13,107**	10,589
Auditors' remuneration	**2,375**	2,576
Loss on disposal of property, plant and equipment	**1,489**	832
Share of tax of an associate (included in share of profit of an associate)	**445**	108
Net exchange loss	**1,070**	1,019

10. Taxation

	2007	2006
	HK$'000	*HK$'000*
The charge comprises		
PRC Enterprise Income Tax		
The Company and subsidiaries		
- current year	**-**	6,061
- overprovision in prior years	**(819)**	-
	(819)	6,061
Jointly controlled entities	**3,172**	7,039
	2,353	13,100

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 subsidiaries and jointly controlled entities in the PRC ranges from 15% to 33%.

11. (Loss) earnings per share

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

	2007 *HK$'000*	2006 *HK$'000*
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(60,998)**	9,153
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**3,310,874,619**	3,307,490,057
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 diluted loss per share for the year ended 31st March 2007 was not presented as the conversion of the Company's outstanding convertible bonds and the exercise of the share options and warrants outstanding would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31st March 2006 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

12. Debtors and prepayments

	2007 *HK$000*	2006 *HK$'000*
Trade receivables	**86,318**	130,765
Other receivables *(Note)*	**22,647**	22,370
Deposits and prepayments	**48,328**	39,609
	157,293	192,744

Note: Other receivables included an interest free advance to AQSIQ, in order for AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK$18,180,000).

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:

	2007 *HK$000*	2006 *HK$'000*
0-90 days	**37,066**	100,808
90-180 days	**25,932**	20,281
180-360 days	**6,891**	6,003
Over 360 days	**16,429**	3,673
	86,318	130,765

13. Creditors and accruals

	2007	2006
	HK$000	*HK$'000*
Trade payables	**45,402**	65,859
Other payables and accruals	**23,290**	31,774
	68,692	97,633

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

	2007	2006
	HK$000	*HK$'000*
0-90 days	**26,274**	44,230
90-180 days	**5,563**	9,465
180-360 days	**4,702**	1,709
Over 360 days	**8,863**	10,455
	45,402	65,859

FINAL DIVIDEND

The Directors do not recommend payment of a final dividend for the year ended 31st March 2007 (2006: nil).

FINANCIAL REVIEW

The key financial figures of the Group for the year ended 31st March 2007 and the comparative figures for the year ended 31st March 2006 were summarized as follows:

	2007	2006	Change
	HK$'000	*HK$'000*	*%*
Turnover	**286,057**	403,545	(29.1)
Gross profit	**64,930**	184,063	(64.7)
Gross profit percentage	**22.7%**	45.6%	N/A
Other income	**27,098**	7,492	261.7
Administrative expenses	**139,143**	135,358	2.8
Share option expense	**1,272**	16,046	(92.1)
Convertible bonds issue expenses	**-**	26,480	N/A
Change in fair value of convertible bonds	**19,807**	1,420	1,294.9
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	**6,718**	9,725	(30.9)
(Loss) profit before interest, taxes, depreciation and amortization, and after minority interests	**(45,684)**	33,039	N/A
Net (loss) profit attributable to shareholders	**(60,998)**	9,153	N/A
(Loss) earnings per share			
Basic	**(1.84) cents**	0.28 cents	N/A
Diluted	**N/A**	0.27 cents	N/A

Results

- *Turnover*

Turnover of the Group for the year decreased by 29.1% from HK$403,545,000 to HK$286,057,000. The decrease was mainly due to the following reasons:

(a) 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 2007 was HK$10,489,000 as compared with the turnover of HK$118,522,000 for the year ended 31st March 2006. In the year ended 31st March 2006, Grand Cycle had more projects and projects with larger contract sums for system integration services to telecom operators in China. For the year ended 31st March 2006, apart from providing system integration services to telecom operators in China, Grand Cycle upgraded the call centres of 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) ("HL95") and set up the database infrastructure for the product identification, authentication and tracking system ("PIATS") of 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT"). These large projects were completed by March 2006 and no revenue relating to these large projects was recorded during the year ended 31st March 2007. Moreover, in the current year, Grand Cycle was in a trough of its cyclical business process as it had completed most of its existing projects for telecom operators and was seeking new long-term projects. During the year, the departure of the Head of Sales, the sales staff responsible for Southern China, and 13 staff from the technical department also affected Grand Cycle's business.

(b) HL95, a 49%-owned jointly controlled entity of the Group, is engaged in telecommunications/information value-added services. The Group's share of the turnover of HL95 for the year ended 31st March 2007 decreased by 7.7% to HK$274,657,000 from HK$297,588,000 for the year ended 31st March 2006. The Group's share of the turnover of HL95 comprised HK$113,153,000 (2006: HK$164,193,000) from short messaging services ("SMS"), HK$94,091,000 (2006: HK$73,099,000) from fixed-line interactive voice response system ("IVRS"), HK$17,567,000 (2006: HK$14,880,000) from mobile IVRS, HK$33,155,000 (2006: HK$31,112,000) from Internet-protocol ("IP") phone, HK$9,943,000 (2006: HK$5,863,000) from call centres, and HK$6,748,000 (2006: HK$8,441,000) from other value-added services. The decrease in revenue was mainly due to the decrease in SMS revenue resulting from policies changes implemented by China Mobile and China Unicom to regulate the short messaging service ("SMS") market. In June 2006, the Ministry of Information Industry ("MII") promulgated new policy directives to address a number of issues, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development for the service provider industry. In July 2006, China Mobile implemented such policies changes for all subscription on its Monternet platform, followed by the similar polices changes implemented by China Unicom in September 2006. These policies had exerted significant negative impacts on all service providers in the PRC, including HL95 since second half of 2006. The decrease in SMS revenue was offset by increase in fixed-line and mobile IVRS revenues due to increase in tariffs and introduction of popular games, and increase in IP phone and call centre revenues due to increase in number of corporate customers.

(c) CCIT, a 50%-owned jointly controlled entity of the Group, is engaged in PIATS. The Group's share of the revenue of CCIT for the year ended 31st March 2007 decreased by 82.3% to HK$911,000 from HK$5,149,000 for the year ended 31st March 2006. The PIATS business was in a start-up phase during the current year. During the year, the rollout of PIATS was slower than anticipated due to delays in government policies and procedures related to PIATS and start-up and technical problems relating to the initial rollout of PIATS.

- *Gross profit percentage*

The gross profit percentage of the Group during the year ended 31st March 2007 decreased to 22.7% from 45.6% during the year ended 31st March 2006, because of a decrease in the number of large projects undertaken by Grand Cycle, a decrease in gross profit margins for HL95, and annual support fees and amortization expenses for the Oracle database.

In the year ended 31st March 2006, there were two larger projects for China Mobile which generated higher profit margins for that year. Grand Cycle's projects for HL95 and PIATS were also major projects during the year end 31st March 2006. In general, Grand Cycle can generate higher profit margins on larger projects since Grand Cycle can negotiate a better price from its suppliers of system integration equipment for larger contracts. During the year ended 31st March 2007, Grand Cycle had less projects and the contract values of system integration projects for telecom operators were smaller and generated lower profit margins. Certain of Grand Cycle's expenses are fixed in nature and are allocated to projects undertaken by Grand Cycle in determining the gross profit. Grand Cycle's gross profit margin declined given the decrease in the number of projects and the smaller contract values of projects undertaken in the current year, and the fixed nature of these expenses.

HL95's gross profit percentage declined because of a shift in revenue sharing arrangements among telecom operators, service providers and content providers in the IVRS/SMS industries where the telecom operators and content providers obtained a higher share of revenue and service providers like HL95 took a smaller share of the revenue. Service providers like HL95 must work with telecom operators and content providers in providing IVRS/SMS content services to consumers and consumers pay a fee for accessing such content. HL95's gross profit margin was also affected by the increased rate of commissions to IP phone agents. IP phone agents introduce customers to HL95 for IP phone service.

In May 2006, CCIT invested US$10,959,000 (RMB88,088,000) in an Oracle database comprising annual support fees RMB15,885,000 and license fees RMB72,203,000. The Oracle database is used for the PIATS platform. During the year ended 31st March 2007, HK$10,016,000 of the annual support fees and amortization of the license fees have been expensed.

- *Other income*

  Other income principally comprised interest income of HK$23,391,000 and change in fair value of held for trading investments of HK$3,236,000. In the year ended 31st March 2006, other income principally comprised interest income of HK$7,425,000.

- *Administrative expenses*

  Administrative expenses for the year ended 31st March 2007 was HK$139,143,000, representing an increase of 2.8% over HK$135,358,000 for the previous year. The increase was mainly due to higher rental expenses for a full year's office rental expense for PIATS in the year ended 31st March 2007 and additional office space in Beijing for the PIATS operations. In the year ended 31st March 2006, PIATS only incurred six months of rental expense.

- *Share option expense*

  Share option expense of HK$1,272,000 (2006: HK$16,046,000) represents a non-cash expense recorded by the Group in accordance with the requirements of Hong Kong Financial Reporting Standards ("HKFRS") 2 Share-based Payment. Under HKFRS 2 the fair value of share options granted to directors and employees of the Group 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. The Group recognized a share option expense of HK$16,046,000 in the year ended 31st March 2006 because the fair value of 152.6 million options was expensed in that year. During the year ended 31st March 2007, the Company did not issue any new options and only the fair value of 10.2 million options was expensed in the current year.

- *Change in fair value of convertible bonds*

  The Group recorded a loss on change in fair value of convertible bonds of HK$19,807,000 for the year ended 31st March 2007 (2006: HK$1,420,000). 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 Hong Kong Accounting Standards ("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 changes in fair value of the Bonds between 31st March 2006 and 31st March 2007 are recognized in the income statement during the year ended 31st March 2007. The increase in the change in fair value mainly represented an imputed interest on the Bonds.

- *Share of profit of an associate*

  Share of profit of an associate represents 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"), a joint venture with the PRC Customs Department and China Telecom, engaged in electronic customs processing and other electronic government services. The share of profit of Dongfong Customs was HK$6,718,000 for the year ended 31st March 2007, a decrease of 30.9% as compared with HK$9,725,000 for the year ended 31st March 2006. Dongfang Customs used to have three main sources of revenue: electronic port project development, sales of SIM cards and readers, and sales of value-added cards. During the year ended 31st March 2007, revenue from electronic port project development decreased significantly since these projects were completed during the year. Since then, Dongfang Customs has shifted its focus to concentrate on its SIM cards and readers, and sales of value-added cards businesses. SIM card and readers are used by customers to get access to the system for electronic custom filing and declaration. Value-added cards are purchased by the customers to recharge the value for the use of SIM cards. The management of Dongfang Customs believe that the SIM cards and readers, and value-added cards businesses provide a stable revenue stream and profitability in the long-term. Because of this shift in focus, the electronic port project development revenue decreased by HK$9 million to HK$23 million while the revenues of sales of SIM cards and readers increased by HK$22 million to HK$25 million during the current year. Dongfang Customs has adopted a new strategy in the current year to be directly involved in the sales of SIM cards and readers (rather than through other suppliers) and charge less for the SIM cards and reader in order to increase the number of customers in using electronic custom filing and declaration. Selling and administration expenses also increased because of the increased business promotion, headcount and rental expenses to cope with the expansion in the SIM cards and readers, and value-added cards businesses. As a result, there was a reduction in the current year's profit in exchange for a larger customer base and long-term growth and profitability.

- *(Loss) profit before interest, taxes, depreciation and amortization, and after minority interests*

  Loss before interest, taxes, depreciation and amortization, and after minority interests for the year ended 31st March 2007 was HK$45,684,000, as compared with a profit of HK$33,039,000 in the previous year, because of the following reasons:

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

  (b) Decrease in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above.

- *Net (loss) profit attributable to shareholders*

  Net loss attributable to shareholders for the year ended 31st March 2007 was HK$60,998,000, as compared with a profit of HK$9,153,000 in the previous year.

- *(Loss) earnings per share*

  Basic loss per share was HK1.84 cents for the year ended 31st March 2007 as compared with the basic earnings of HK0.28 cents per share for the previous year.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 31st March 2007 and the corresponding comparative figures as at 31st March 2006 are summarized as follows:

	31st March 2007 HK$'000	31st March 2006 HK$'000
Current assets	**672,584**	817,722
Including		
- bank balances and cash (mainly denominated in Hong Kong dollars, United States dollars and Renminbi)	**453,984**	592,978
- debtors	**108,965**	153,135
Current liabilities	**81,065**	118,350
- including short-term bank loans	**12,373**	11,760
Current ratio (current asset/current liabilities)	**8.30**	6.91
Quick ratio (bank balances and cash & debtors/ current liabilities)	**6.94**	6.30
Shareholders' equity	**318,240**	337,765
Convertible bonds	**543,765**	547,420
Gearing ratio (bank loans and convertible bonds/ shareholders' equity)	**174.75%**	165.55%

Bank balances and cash decreased by 23.4% from HK$592,978,000 as at 31st March 2006 to HK$453,984,000 as at 31st March 2007. The decrease in cash was principally due to the development of the PIATS project.

As at 31st March 2007, trade debtors aged over 12 months were HK$16,429,000 (31st March 2006: HK$3,673,000), most of which were related to system integration and software development business. Of the trade debtors aged over 12 months, HK$6,289,000 represents the Group's share of trade receivables due from jointly controlled entities. Another HK$2,987,000 has been settled after 31st March 2007.

Bank loans on the consolidated balance sheets as at 31st March 2007 and 31st March 2006 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 2007, the current ratio improved to 8.30 from 6.91 as at 31st March 2006, and the quick ratio also improved to 6.94 from 6.30.

Shareholders' equity decreased from HK$337,765,000 as at 31st March 2006 to HK$318,240,000 as at 31st March 2007 mainly because of net loss of the Group incurred during the year, offset by conversion of US$3,000,000 of convertible bonds into shares.

The Group's gearing ratio increased from 165.55% as at 31st March 2006 to 174.75% as at 31st March 2007 mainly because of increase of HK$19,807,000 in fair value of the convertible bonds and net loss of the Group incurred during the year, offset by conversion of US$3,000,000 of convertible bonds into shares.

The Group's operations and transactions are principally located in the People's Republic of China ("PRC"). Other than the convertible bonds which are denominated in US dollars and the bank balances and cash most of which are placed in fixed deposits and liquid investments denominated in US dollars, other assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi. The Directors believe that there will not be material fluctuation in the exchange rate of US dollars against Hong Kong dollars, the reporting currency, in the foreseeable future, and the gradual and slight increase in the exchange rate of Renmimbi against Hong Kong dollars 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 Renmimbi. 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 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 joint venture among the Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("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 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.

During the current year, CCIT was still in the start-up phase but has obtained strong support from government departments such as AQSIQ, State Administration of Industries and Commerce ("SAIC"), Ministry of Commerce ("MOC") and Ministry of Agriculture ("MOA"). In July 2006, an important signing ceremony was held at The Great Peoples' Hall in Beijing where the 128 top domestic brand name manufacturers such as Haier, Moutai Liquor, Wuliangye Liquor, Tsingtao Beer, Shineway Group, Hainan Coconut Palm coconut juice etc signed up for PIATS. In the same month, the Group announced a strategic partnership with Oracle to develop the PIATS database and platform. In August 2006, AQSIQ and SAIC issued measures to give incentives to manufacturers that join PIATS. Good track records in PIATS are considered favourably in applying for various government certifications such as well-known countrywide brand, exemption from government quality inspection, etc. Government would also simplify the procedures for licence renewal if the manufacturers have a good PIATS track record. In January 2007, AQSIQ has formally established a PIATS promotion work office (中國產品質量電子監管網推進工作辦公室), in which the members comprise, inter alia, the functional heads of AQSIQ comprising head of quality management (質量管理司司長), vice-head of product quality supervision (產品質量監督司副司長), vice-head of monitoring food products production (食品生產監管司副司長) and vice-head of counterfeit products law enforcement and inspection (執法督查司副司長). These functional heads of AQSIQ are responsible for quality products government certification, exemption from government quality inspection, food products license renewal and counterfeit products law enforcement. The main responsibility of the work office is to organise, co-ordinate and supervise all AQSIQ provincial and branch offices for the nation-wide roll out of PIATS. In May 2007, AQSIQ issued a PIATS promotion work plan to schedule an additional 20,000 manufacturers to join PIATS in 2007. Since the initial roll-out of PIATS to the date of this announcement, over 19,000 manufacturers across China have joined PIATS.

In order to make PIATS more easily accessible by users across the country, PIATS enquiry services has been included in the nation-wide hotline/ Directory Assistance Information Service 114, 116114 and 118114 of China Telecom and China Netcom after the signing of co-operation contracts with China Telecom and China Netcom. Moreover, the co-operation contracts with China Telecom and China Netcom cover the distribution of PIATS telephone terminals to be installed in the selected supermarkets, shops, farm product supply stations, hospitals and drug stores.

During the current year, the scope of PIATS business also extended to drugs. In April 2006, the State Food and Drug Administration ("SFDA") approved the use of PIATS platform for two kinds of controlled drugs: anaesthetics and mental disorder drugs. In July 2006, the Group has signed a partnership arrangement with Microsoft to develop a PIATS platform specifically for drugs. In November 2006, after reviewing the success in using PIATS for the initial two controlled drugs, SFDA decided to extend the scope of the use of PIATS for all types of controlled drugs. Since April 2007, the PIATS platform for controlled drugs has been completed on all testing for the daily supervision functions as recognised by SFDA. In the same month, the PIATS platform for controlled drugs was launched for the trial run in 11 selected provinces and it is expected that this platform for controlled drugs will be launched nation-wide in the next few months.

Future prospect

Since the launch of PIATS, CCIT has experienced positive response from manufacturers, consumers, AQSIQ, SFDA, SAIC, MOC and MOA and other government departments. Senior government officials have provided tremendous support for PIATS since it reduces counterfeit products, improves product safety and foods and drugs safety, and protects consumers, manufacturers and intellectual property rights. In the coming months, the Group will continue to sign up manufacturers to join PIATS, especially in the pharmaceutical, tobacco, liquor and food products industries. 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/information value-added services ("VAS") company in the PRC and is licensed by the Ministry of Information Industry ("MII") on the provision of SMS, IVRS and other telecom services in the PRC. HL95 provides IVRS services through both fixed telephone line network and mobile phone network, and SMS services through the mobile phone network (both in collaboration with the telecom operators) which covers the whole country. HL95 offers governmental, commercial and entertainment information through its SMS and IVRS services. HL95 also provides other telecommunication/information VAS such as IP phone service and customer care call centres services.

In June 2006, MII promulgated new policy directives to address a number of issues, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development for the service provider industry. In July 2006, China Mobile implemented such policies changes for all subscription on its Monternet platform, followed by the similar polices changes implemented by China Unicom in September 2006. These policies had exerted significant negative impacts on all service providers in the PRC, including HL 95 since second half of 2006. For the year ended 31st March 2007, the Group's share of SMS revenue from HL95 was HK$113,153,000, a decrease of 31.1% compared with the previous year. Despite the decrease in revenue from SMS, HL95 experienced increased revenues from fixed line and mobile IVRS services, IP phone services and call centre services.

Future prospect

HL95 intends to enrich its service varieties and plans to work with more content providers, government departments and large corporations to provide more telecommunication/information VAS and call centre services to ensure a stable growth for its existing businesses. Following the co-operation contracts entered into with various financial institutions and large corporations recently, HL95 is now expanding its Shenzhen call centre capacity from 200 seats to 800 seats. HL95 is also in preliminary discussions with the largest outsourcing call centre operator in Australia to explore joint business opportunities in China. 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 using 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. Moreover, the roll out of PIATS will have a positive effect for HL95's business.

- **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. Currently, Dongfang Customs has around 340,000 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 there are only around 340,000 users, and China is the manufacturing base for the world, the Directors believe that there is great potential for Dongfang Customs to increase its users base. In addition, the Group anticipates that the number of users will increase in line with the economic growth of the PRC. In the current year, Dongfang Customs has begun to take a more active role in marketing its services to manufacturers and import/export corporations by advertising in magazines and concentrating its efforts in the sales of SIM cards and readers (by lowering their prices and directly handling the sales instead of using third parties) which are required by users to access the electronic customs declaration system, and sales of value-added cards.

Having a unique advantage of electronic customs processing platform and growing users base, Dongfong Customs is now considering to extend to other areas for future business development, including the diversification into a nation-wide electronic logistics platform.

- **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 Company and its subsidiaries, HL95, CCIT and Dongfang Customs as at 31st March 2007 are detailed as follows:

Location	The Company and its subsidiaries	Entities HL95 (49%-owned jointly controlled entity)	CCIT (50%-owned jointly controlled entity)	Dongfang Customs (30%-owned associate)
- Hong Kong	11	-	-	-
- The PRC	56	1,616	91	405
Total	67	1,616	91	405

Total staff costs of the Group for the year were HK$66,174,000 in which HK$39,303,000 and HK$6,371,000 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 2007, no share options were granted to employees or other eligible persons.

CORPORATE GOVERNANCE

In the opinion of the Directors, throughout the year ended 31st March 2007, 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 2006. The meeting was conducted 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 2007.

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, Dr. 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 Dr. 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 2007 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 WEBSITES

The information as required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) and the website of irasia.com Limited (http://www.irasia.com/listco/hk/citic21cn/) in due course.

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

Hong Kong, 20th July 2007

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 Dr. Hui Ho Ming, Herbart, JP, Mr. Zhang Jian Ming and Mr. Liu Hongru.