

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 2008

Highlights

CITIC 21CN Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded a turnover of HK\$233,374,000 for the year ended 31st March 2008, representing a decrease of 18.4% compared with the previous year’s turnover of HK\$286,057,000, as a result of the fall in revenue from telecommunications/information value-added services, and system integration and software development, despite an increase of over 589% in revenue of HK\$6,279,000 from the Product Identification, Authentication, Tracking System (“PIATS”) business.

The Group recorded share of profit of an associate of HK\$11,520,000 for the year ended 31st March 2008, representing an increase of 71.5% compared with the previous year’s HK\$6,718,000. The share of profit of an associate represented the equity income contribution from 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited).

The Group recorded a loss before interest, taxes, depreciation and amortization, and after minority interests of HK\$54,807,000 for the current year, representing an increase of 20.0% as compared with HK\$45,684,000 of last year.

Audited net loss attributable to shareholders amounted to HK\$75,860,000, representing an increase of 24.4% as compared with HK\$60,998,000 of last year.

The basic loss per share for the current year was HK2.10 cents as compared with HK1.84 cents of last year.

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

* *For identification purposes only*

The Directors are pleased to announce the audited consolidated results of the Group for the year ended 31st March 2008 and the audited consolidated balance sheet as at 31st March 2008 together with the audited comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2008

	<i>Notes</i>	2008 HK\$'000	2007 <i>HK\$'000</i>
Turnover	2	233,374	286,057
Cost of sales and services		<u>(183,765)</u>	<u>(221,127)</u>
Gross profit		49,609	64,930
Other income	3	20,823	27,098
Administrative expenses		(139,926)	(139,158)
Share option expense	4	(3,751)	(1,272)
Change in fair value of convertible bonds	5	(11,395)	(19,807)
Change in fair value of loan receivable	6	(1,921)	–
Share of profit of an associate	7	11,520	6,718
Finance costs		<u>(1,359)</u>	<u>(721)</u>
Loss before taxation	8	(76,400)	(62,212)
Taxation	9	<u>(133)</u>	<u>(2,353)</u>
Loss for the year		<u>(76,533)</u>	<u>(64,565)</u>
Attributable to:			
Equity holders of the Company		(75,860)	(60,998)
Minority interests		<u>(673)</u>	<u>(3,567)</u>
		<u>(76,533)</u>	<u>(64,565)</u>
		HK cents	<i>HK cents</i>
Loss per share	10		
Basic		<u>(2.10)</u>	<u>(1.84)</u>

CONSOLIDATED BALANCE SHEET*At 31st March 2008*

	<i>Notes</i>	2008 HK\$'000	2007 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		122,735	98,691
Intangible assets		74,459	72,013
Interest in an associate		105,345	93,276
Loan receivable	6	25,039	–
Available-for-sale investments		8,250	7,173
		<hr/> 335,828	<hr/> 271,153
Current assets			
Inventories		1,437	1,110
Amounts due from customers for contract work		18,662	17,974
Debtors and prepayments	11	138,201	157,293
Taxation recoverable		–	522
Investments held for trading		17,923	15,395
Loan receivable	6	–	26,306
Bank balances and cash		288,322	453,984
		<hr/> 464,545	<hr/> 672,584
Current liabilities			
Creditors and accruals	12	81,112	68,692
Taxation payable		141	–
Short-term bank loans		26,950	12,373
		<hr/> 108,203	<hr/> 81,065
Net current assets		<hr/> 356,342	<hr/> 591,519
Total assets less current liabilities		692,170	862,672
Non-current liability			
Convertible bonds	5	84,653	543,765
Net assets		<hr/> 607,517	<hr/> 318,907
Capital and reserves			
Share capital		37,179	33,370
Reserves		570,327	284,870
Equity attributable to equity holders of the Company		<hr/> 607,506	<hr/> 318,240
Minority interests		11	667
Total equity		<hr/> 607,517	<hr/> 318,907

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 2008, 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 March 2007. 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 standards, amendments and interpretations that have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK(IFRIC)*-INT 12	Service concession arrangements ³
HK(IFRIC)*-INT 13	Customer loyalty programmes ⁴
HK(IFRIC)*-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction ³

¹ Effective for annual periods beginning on or after 1st January 2009

² Effective for annual periods beginning on or after 1st July 2009

³ Effective for annual periods beginning on or after 1st January 2008

⁴ Effective for annual periods beginning on or after 1st July 2008

* IFRIC represents the International Financial Reporting Interpretations Committee

The Directors anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

2 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 value-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. 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 2008				
Turnover	<u>224,821</u>	<u>6,279</u>	<u>2,274</u>	<u>233,374</u>
Segment results	<u>(21,620)</u>	<u>(26,468)</u>	<u>(2,535)</u>	(50,623)
Other income				4,159
Interest income				16,664
Share option expense				(3,751)
Change in fair value of convertible bonds				(11,395)
Change in fair value of loan receivable				(1,921)
Share of profit of an associate				11,520
Finance costs				(1,359)
Unallocated corporate expenses				<u>(39,694)</u>
Loss before taxation				(76,400)
Taxation				<u>(133)</u>
Loss for the year				<u>(76,533)</u>
ASSETS				
Segments assets	118,008	163,271	54,562	335,841
Interest in an associate				105,345
Unallocated corporate assets				<u>359,187</u>
Consolidated total assets				<u>800,373</u>
LIABILITIES				
Segment liabilities	41,965	23,877	7,291	73,133
Unallocated corporate liabilities				<u>119,723</u>
Consolidated total liabilities				<u>192,856</u>

	Telecom- munications/ information value-added services HK\$'000	PIATS business HK\$'000	System integration and software development HK\$'000	Others HK\$'000	Total HK\$'000
OTHER INFORMATION					
Capital additions	9,321	25,998	45	2	35,366
Depreciation	9,839	3,860	87	1,984	15,770
Amortization of intangible assets	<u>–</u>	<u>3,791</u>	<u>–</u>	<u>–</u>	<u>3,791</u>
		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		<u>274,657</u>	<u>911</u>	<u>10,489</u>	<u>286,057</u>
Segment results		<u>(2,339)</u>	<u>(28,071)</u>	<u>(5,529)</u>	(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					<u>(38,289)</u>
Loss before taxation					(62,212)
Taxation					<u>(2,353)</u>
Loss for the year					<u>(64,565)</u>
ASSETS					
Segments assets		120,787	121,015	86,841	328,643
Interest in an associate					93,276
Unallocated corporate assets					<u>521,818</u>
Consolidated total assets					<u>943,737</u>
LIABILITIES					
Segment liabilities		31,694	13,766	15,500	60,960
Unallocated corporate liabilities					<u>563,870</u>
Consolidated total liabilities					<u>624,830</u>

	Telecom- munications/ information value-added services <i>HK\$'000</i>	PIATS business HK\$'000	System integration and software development <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
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

Geographical segments

All business segments are carried out in the People's Republic of China ("PRC"). Accordingly, a separate summary of geographical segment is therefore not presented.

3 Other income

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Interest income from bank deposits	16,009	20,725
Interest income from other deposit	–	2,024
Imputed interest income from loan receivable	655	642
Net exchange gain	374	–
Write back of long outstanding payables	1,523	–
Change in fair value of held for trading investments	2,160	3,236
Dividend from equity securities	41	–
Others	61	471
	<u>20,823</u>	<u>27,098</u>

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\$3,751,000 for the year ended 31st March 2008 (2007: HK\$1,272,000) in relation to share options granted by the Company.

5 Convertible bonds

The Company issued US\$55,000,000 and US\$15,000,000 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 2008, a loss on change in fair value of the Bonds of HK\$11,395,000 (2007: HK\$19,807,000) is recognized in the income statement.

During the year ended 31st March 2008, US\$41,000,000 of the Bonds were converted into shares.

On 21st December 2007, US\$16,000,000 of the Bonds was redeemed.

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. Interest income of HK\$655,000 (2007: HK\$642,000) from the loan receivable is recognized as other income in the income statement for the year ended 31st March 2008.

On 22nd May 2008, the loan was renewed and the term of the loan was extended for a period of three years ending 23rd March 2011. As at 31st March 2008, the amount of the loan receivable stated in the consolidated balance sheet was HK\$25,039,000 (2007: HK\$26,306,000) after inter-company balance elimination of the Group’s 50% share of CCIT and a fair value adjustment of HK\$1,921,000 for deemed interest. Adjustment in fair value of loan receivable arises from the adoption of HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement for loan receivable. On the adoption of these accounting standards, the difference of HK\$1,921,000 (2007: N/A) 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 Share of profit of an associate

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

8 Loss before taxation

	2008 <i>HK\$’000</i>	2007 <i>HK\$’000</i>
Loss before taxation has been arrived at after charging:		
Directors’ remuneration	1,860	2,860
Other staff’s retirement benefits scheme contributions	1,552	1,503
Other staff costs	63,245	60,539
Share option expense	3,751	1,272
Total staff costs	70,408	66,174
Amortization of intangible assets (included in cost of sales and services)	3,791	912
Depreciation	15,770	11,328
Cost of inventories recognized as an expense	1,936	7,210
Operating lease rentals in respect of buildings	12,992	13,107
Auditors’ remuneration	2,594	2,375
Loss on disposal of property, plant and equipment	3,020	1,489
Share of tax of an associate (included in share of profit of an associate)	534	445
Net exchange loss	–	1,070

9 Taxation

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
The charge comprises		
Hong Kong Profits Tax		
– underprovision in prior years	33	–
PRC Enterprise Income Tax		
The Company and subsidiaries		
– current year	17	–
– under(over)provision in prior years	51	(819)
	68	(819)
Jointly controlled entities	32	3,172
	100	2,353
	133	2,353

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the year.

The tax rate applicable for the subsidiaries and jointly controlled entities in the PRC ranges from 15% to 33%.

On 16th March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “Tax Law”) by Order No. 63 of the President of the PRC. On 6th December 2007, the State Council of the PRC issued Implementation Regulations of the Tax Law. The Tax Law and Implementation Regulations changed the tax rates of the Group’s subsidiaries and jointly controlled entities in the PRC progressively, from 15% and 33%, to 25% before 1st January 2013. Other than the effect on current tax charge, the Directors anticipate that the application of the Tax Law will have no material impact on the results and the financial position of the Group.

10 Loss per share

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss for the purposes of basic loss per share	(75,860)	(60,998)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	3,606,917,861	3,310,874,619

The diluted loss per share was not presented as the conversion of the Company’s outstanding convertible bonds and the exercise of the share options outstanding would result in a decrease in loss per share.

11 Debtors and prepayments

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade receivables	52,295	86,318
Other receivables (<i>Note</i>)	24,429	22,647
Deposits and prepayments	61,477	48,328
	<u>138,201</u>	<u>157,293</u>

Note: Other receivables included an interest free advance to Information Centre of General Administration of Quality Supervision, Inspection and Quarantine (“Information Centre of AQSIQ”) of the PRC, in order for Information Centre of AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK\$19,800,000) (2007: HK\$18,180,000). Information Centre of AQSIQ is the joint venture partner of CCIT.

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:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0–90 days	29,642	37,066
91–180 days	3,421	25,932
181–360 days	2,841	6,891
Over 360 days	16,391	16,429
	<u>52,295</u>	<u>86,318</u>

12 Creditors and accruals

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Trade payables	39,154	45,402
Other payables and accruals	41,958	23,290
	<u>81,112</u>	<u>68,692</u>

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0–90 days	5,624	26,274
91–180 days	18,194	5,563
181–360 days	1,270	4,702
Over 360 days	14,066	8,863
	<u>39,154</u>	<u>45,402</u>

FINAL DIVIDEND

The Directors do not recommend payment of a final dividend for the year ended 31st March 2008 (2007: Nil).

FINANCIAL REVIEW

The key financial figures of the Group for the year ended 31st March 2008 and the comparative figures for the year ended 31st March 2007 are summarized as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	Change %
Turnover	233,374	286,057	(18.4)
Gross profit	49,609	64,930	(23.6)
<i>Gross profit percentage</i>	21.3%	22.7%	N/A
Other income	20,823	27,098	(23.2)
Administrative expenses (excluding staff costs)	73,269	74,256	(1.3)
Staff costs (excluding share option expense)	66,657	64,902	2.7
Share option expense	3,751	1,272	194.9
Change in fair value of convertible bonds	11,395	19,807	(42.5)
Change in fair value of loan receivable	1,921	–	N/A
Share of profit of an associate	11,520	6,718	71.5
Loss before interest, taxes, depreciation and amortization, and after minority interests	54,807	45,684	20.0
Net loss attributable to shareholders	75,860	60,998	24.4
Loss per share			
Basic	2.10 cents	1.84 cents	14.1

Results

– Turnover

Turnover of the Group for the year decreased by 18.4% from HK\$286,057,000 to HK\$233,374,000. The decrease was mainly due to the following reasons:

- (a) 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) (“HL95”), a 49%-owned jointly controlled entity of the Group, is engaged in telecommunications/information value-added services (“VAS”). The Group’s share of the turnover of HL95 for the year ended 31st March 2008 decreased by 18.1% to HK\$224,821,000 from HK\$274,657,000 for the year ended 31st March 2007. The Group’s share of the turnover of HL95 comprised HK\$68,642,000 (2007: HK\$113,153,000) from short messaging services (“SMS”), HK\$62,947,000 (2007: HK\$94,091,000) from fixed-line interactive voice response system (“IVRS”), HK\$29,658,000 (2007: HK\$17,567,000) from mobile IVRS, HK\$32,351,000 (2007: HK\$33,155,000) from Internet-protocol (“IP”) phone, HK\$26,563,000 (2007: HK\$9,943,000) from call centres, and HK\$4,660,000 (2007: HK\$6,748,000) from other value-added services. The decrease in turnover was mainly due to the decrease in SMS revenue and fixed-line IVRS revenue, despite a substantial percentage increase in revenues from the call centre and mobile IVRS businesses. SMS revenue decreased by 39.3% or HK\$44,511,000 due to the policies changes implemented by China Mobile and China Unicom to regulate the SMS market since the second half of 2006. In June 2006, the Ministry of Information Industry 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 policies changes, such as requiring its users to subscribe to monthly packages for SMS/MMS services, therefore reducing the number of complaints by its users for accidentally downloading unwanted SMS/MMS contents, followed by similar policies changes implemented by China Unicom in September 2006. These policies continued to have significant negative impacts on all service providers in the PRC, including HL95, in the current year. In May 2007, China Mobile took further actions, such as excluding HL95’s and other service providers’ contents from the embedded menus of mobile phones that are customized for China Mobile. The mobile telecom operators also used aggressive marketing tactics such as offering content providers a higher percentage of fee-sharing (thereby inducing content providers to work with the mobile telecom operators instead of service providers like HL95), and setting lower prices for their SMS content to attract users to buy SMS content from them instead of service providers like HL95. Fixed-line IVRS revenue decreased by 33.1% or HK\$31,144,000 due to increased marketing and promotion efforts by HL95’s main fixed-line IVRS competitors China Netcom and China Telecom, and aggressive marketing tactics employed by these fixed-line telecom operators to gain market share from service providers like HL95 since the beginning of 2007. These aggressive marketing tactics employed by fixed-line telecom operators include restricting the amount of monthly revenues that service providers like HL95 can earn from the customers of the fixed-line telecom operators, offering a higher percentage of fee-sharing with content providers (thereby inducing content providers to work with the fixed-line telecom operators instead of service providers like HL95), and setting lower prices for their fixed-line IVRS content to attract users to buy the IVRS content from the fixed-line telecom operators instead of service providers like HL95. These aggressive marketing tactics of the fixed-line and mobile telecom operators negatively affected HL95’s market share for fixed-line IVRS and

SMS, respectively. Increase in mobile IVRS revenue by 68.8% or HK\$12,091,000 was due to co-operation with radio stations to provide IVRS related services across China. Increase in call centre revenue by 167.2% or HK\$16,620,000 was due to expansion of the call centre business and included major accounts and additional business from China Mobile Guangdong and CITIC Bank.

- (b) 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 2008 was HK\$2,274,000 as compared with the turnover of HK\$10,489,000 for the year ended 31st March 2007. Since the fiscal year ended 31st March 2007, management has been scaling down the operations of Grand Cycle due to the highly competitive nature and the long collection period inherent in the industry for providing system integration services to the telecom industry.

The decrease in turnover of HL95 and Grand Cycle was partly offset by a robust increase in turnover of 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) (“CCIT”), a 50%-owned jointly controlled entity of the Group engaged in the PIATS business. The Group’s share of the turnover of CCIT for the year ended 31st March 2008 increased by 589.2% to HK\$6,279,000 from HK\$911,000 for the year ended 31st March 2007. In December 2007, the government issued a policy for all manufacturers of 69 product types in the PRC to mandatorily join PIATS (further details of which are set out under “Business Review – CCIT” below). As a result of this policy, CCIT has experienced significant increase in turnover starting in March 2008 due to these types of manufacturers joining PIATS.

– *Gross profit percentage*

The gross profit percentage of the Group during the year ended 31st March 2008 decreased to 21.3% from 22.7% during the year ended 31st March 2007, mainly because of decrease in gross profit margin for HL95.

HL95’s gross profit percentage declined because it had to give a higher share of IVRS/SMS revenue to telecom operators, therefore service providers like HL95 took a smaller share of the revenue, and the aggressive marketing tactics employed by the telecom companies. Service providers like HL95 must work with telecom operators in providing IVRS/SMS content services to customers of fixed-line and mobile telecom operators, and these customers pay a fee for accessing such content. Service providers must share this content fee with the telecom operators and content providers. Fixed-line telecom operators and mobile telecom operators also offer their own IVRS content and SMS content, respectively, to customers and compete with service providers like HL95 for market share. Mobile and fixed-line telecom operators like China Mobile and China Telecom have been more aggressive in taking up more market share for SMS and fixed-line IVRS, respectively, by setting lower prices for their SMS/IVRS content to attract users to buy such content. Since the mobile and fixed-line telecom operators only have to share fees received from users of their SMS/IVRS content with content providers (whereas service providers like HL95 must share fees received from users of their SMS/IVRS content with the telecom operators and content providers), these telecom operators have more margin and can set the price of their SMS/IVRS content lower than service providers like HL95 to attract users to buy their SMS/IVRS content. HL95’s gross profit margin was also affected by the increased depreciation charge mainly due to the expansion of HL95’s call centre capacity in Beijing, Shenzhen and Foshan.

– *Other income*

Other income principally comprised interest income of HK\$16,664,000, change in fair value of held for trading investments of HK\$2,160,000 and write back of long outstanding payables of HK\$1,523,000. In the year ended 31st March 2007, 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.

– *Administrative expenses (excluding staff costs)*

Administrative expenses excluding staff costs for the year ended 31st March 2008 was HK\$73,269,000, representing a decrease of 1.3% over HK\$74,256,000 for the previous year. The decrease was mainly due to the Group's efforts in controlling costs when turnover declined.

– *Staff costs (excluding share option expense)*

Staff costs excluding share option expense for the year ended 31st March 2008 was HK\$66,657,000, representing an increase of 2.7% over HK\$64,902,000 for the previous year. The increase was mainly due to headcount to cope with the development of the PIATS platform and rollout of PIATS, and the expansion of HL95's call centre capacity in Beijing, Shenzhen and Foshan.

– *Share option expense*

Share option expense of HK\$3,751,000 (2007: HK\$1,272,000) 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 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. During the year ended 31st March 2008, the Company issued 44 million new share options to employees of the Group, resulting in an increase in share option expense recognized by the Group.

– *Change in fair value of convertible bonds*

The Group recorded a loss on change in fair value of convertible bonds of HK\$11,395,000 for the year ended 31st March 2008 (2007: HK\$19,807,000). The Company issued US\$55,000,000 and US\$15,000,000, zero coupon convertible bonds at a par value of US\$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Group has adopted HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for the Bonds. The Bonds are carried at fair value at the balance sheet date and the change in fair value of the Bonds between 31st March 2007 and 31st March 2008 is recognized in the income statement during the year ended 31st March 2008. The decrease in loss on change in fair value was due to conversion of US\$41,000,000 of the Bonds into shares and redemption of US\$16,000,000 of the Bonds during the year ended 31st March 2008. The convertible bonds liability was HK\$84,653,000 as at 31st March 2008 compared to HK\$543,765,000 as at 31st March 2007.

– *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 CCIT 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.

On 22nd May 2008, the loan was renewed and the term of the loan was extended for a period of three years ending 23rd March 2011. As at 31st March 2008, the amount of the loan receivable stated in the consolidated balance sheet was HK\$25,039,000 (2007: HK\$26,306,000) after inter-company balance elimination of the Group's 50% share of CCIT and a fair value adjustment of HK\$1,921,000 for deemed interest. Adjustment in fair value of loan receivable arises from the adoption of HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement for loan receivable. On the adoption of these accounting standards, the difference of HK\$1,921,000 (2007: N/A) 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%.

– *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 Dongfang Customs was HK\$11,520,000 for the year ended 31st March 2008, an increase of 71.5% as compared with HK\$6,718,000 for the year ended 31st March 2007. The increase was mainly due to increase in revenue from sales of SIM cards, readers and value-added cards as a result of increase in number of users, as well as electronic port maintenance service fee. SIM cards and readers are used by customers to access the system for electronic custom filing and declaration. Currently, Dongfang Customs has around 430,000 customers compared to around 340,000 customers one year ago. Value-added cards are purchased by the customers to recharge the value for the use of SIM cards. Dongfang Customs also provides maintenance service to the system for electronic custom filing and declaration and receives service fee accordingly.

– *Loss 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 2008 was HK\$54,807,000, representing an increase of 20.0% over HK\$45,684,000 for the previous year, mainly because of the decrease in turnover and gross profit percentage, partly offset by the decrease in loss on change in fair value of convertible bonds and increase in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above.

– *Net loss attributable to shareholders*

Net loss attributable to shareholders for the year ended 31st March 2008 was HK\$75,860,000, representing an increase of 24.4% over HK\$60,998,000 for the previous year, mainly because of the decrease in turnover and gross profit percentage, partly offset by the decrease in loss on change in fair value of convertible bonds and increase in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above.

– *Loss per share*

Basic loss per share was HK2.10 cents for the year ended 31st March 2008, representing an increase of 14.1% over HK1.84 cents for the previous year, mainly because of the decrease in turnover and gross profit percentage, partly offset by the decrease in loss on change in fair value of convertible bonds and increase in the share of net profit from a 30%-owned associate, Dongfang Customs, as explained above. The increase in loss per share was diluted by the conversion of US\$41,000,000 of the Bonds into shares during the year ended 31st March 2008.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 31st March 2008 and the corresponding comparative figures as at 31st March 2007 are summarized as follows:

	31st March	
	2008	2007
	HK\$'000	HK\$'000
Current assets	464,545	672,584
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	288,322	453,984
– debtors	76,724	108,965
Current liabilities	108,203	81,065
– including short-term bank loans	26,950	12,373
Current ratio (current asset/current liabilities)	4.29	8.30
Quick ratio (bank balances and cash & debtors/current liabilities)	3.37	6.94
Shareholders' equity	607,506	318,240
Convertible bonds	84,653	543,765
Gearing ratio (bank loans and convertible bonds/shareholders' equity)	18.37%	174.75%

Bank balances and cash decreased by 36.5% from HK\$453,984,000 as at 31st March 2007 to HK\$288,322,000 as at 31st March 2008. The decrease in cash was principally due to the redemption of US\$16,000,000 of convertible bonds, the development of the PIATS project and the operations of HL95, partly offset by trade debtors recovered and new bank loans drawn during the year ended 31st March 2008.

As at 31st March 2008, trade debtors aged over 12 months were HK\$16,391,000 (31st March 2007: HK\$16,429,000), most of which were related to system integration and software development business.

Bank loans on the consolidated balance sheets as at 31st March 2008 and 31st March 2007 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 2008, the current ratio decreased to 4.29 from 8.30 as at 31st March 2007, and the quick ratio also decreased to 3.37 from 6.94, mainly due to the decrease in bank balances and cash as explained above.

Shareholders' equity increased from HK\$318,240,000 as at 31st March 2007 to HK\$607,506,000 as at 31st March 2008, mainly because of the conversion of US\$41,000,000 of convertible bonds into shares, offset by net loss of the Group incurred during the year ended 31st March 2008.

The Group's gearing ratio decreased from 174.75% as at 31st March 2007 to 18.37% as at 31st March 2008, mainly because of the conversion of US\$41,000,000 of convertible bonds into shares and the redemption of US\$16,000,000 of convertible bonds, offset by net loss of the Group incurred and new bank loans drawn during the year ended 31st March 2008.

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

BUSINESS REVIEW

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

- **CCIT**

CCIT, a 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 continued to obtain strong support from government departments such as AQSIQ, State Administration of Industries and Commerce (“SAIC”), Ministry of Commerce (“MOC”), State Food and Drugs Administration (“SFDA”) and Ministry of Agriculture (“MOA”). In July 2007, the State Council announced on its website 國務院關於加強食品等產品安全監督管理的特別規定 (State Council’s Special Regulations to Strengthen the Supervision and Monitoring of Safety of Food and Other Products) which, amongst other things, requires manufacturers to be responsible for safety and quality of their products, and if the manufacturer’s products do not meet the legal requirements, the manufacturer may lose its operating licence, be considered to be producing inferior or counterfeit goods, and be subject to legal actions. In September 2007, the website of AQSIQ announced that a Task Force on product quality and food safety under the State Council will strive to monitor products and food with the use of PIATS. The Task Force, with members from AQSIQ, MOC and SAIC, is planning to use PIATS to enforce a nationwide product tracking and authentication system in order to control the production, sales and distribution of products at all stages of production and distribution cycle. Mr. Li Changjiang, Vice Head of the Task Force and the Director of AQSIQ, announced that the PRC government will implement mandatory measures for those enterprises identified to use PIATS so that such enterprises will not be able to distribute their products in the wholesale and retail networks if they do not adopt the PIATS system. From September 2007, 28 major brands of bottled water in Beijing have started to use PIATS by attaching the PIATS bar code to serve as an “electronic identification” to assure consumer confidence. In November 2007, it was announced in the Beijing Olympic Games website that all food products for the 2008 Beijing Olympic Games must be electronically monitored by PIATS. In December 2007, AQSIQ, SAIC and MOC jointly announced the requirement for 69 types of key products in 9 industries which require manufacturing permits (生產許可証) and the China Compulsory Product Certification (“CCC”) (強制性產品認證) to mandatorily join PIATS and include the PIATS barcode on the product package as a measure to enhance the supervision and monitoring of product quality and food safety for products manufactured in the PRC, otherwise the manufacturers of these products cannot sell their products (details of which are set out in the Company’s announcement dated 7th December 2007). All these efforts have had very positive impact on the roll-out of PIATS and the participation of enterprises in PIATS, particularly starting in March 2008. Since the initial roll-out of PIATS to the date of the announcement for the final results for the year ended 31st March 2008, over 64,000 manufacturers across China have joined PIATS, representing an increase of more than 100% since December 2007, and over 2,500 million pieces of products attached with the PIATS barcodes have gone to the market, representing an increase of more than 300% since December 2007.

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. Similar co-operation contract has also been signed with China Mobile.

The scope of PIATS business has also been extended to drugs. In October 2007, SFDA has made it a requirement for pharmaceutical manufacturers of two kinds of government controlled drugs: anaesthetics and Type I mental disorder drugs, to mandatorily use the PIATS system. In April 2008, SFDA issued a policy to mandatorily require, by the end of October 2008, manufacturers and distributors of Type II mental disorder drugs and certain types of non-government controlled ordinary drugs such as blood products, vaccine and traditional Chinese medicines to use PIATS. Furthermore, this policy also mandatorily requires that, starting from 2009, the scope of use of PIATS will be gradually extended to all types of non-government controlled ordinary drugs and medical equipment.

Future prospect

Since the launch of PIATS, it has experienced positive response from manufacturers, consumers, AQSIQ, SFDA, SAIC, MOC, MOA, other government departments and even at the State Council and the National People's Congress of the PRC. 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, the pharmaceutical industry and intellectual property rights. The Group will continue to sign up manufacturers, drug producers and drug distributors to join PIATS in accordance with the government policies to enhance the supervision and monitoring of product quality, food safety and drug safety for products manufactured in the PRC. Since March 2008, the Group has experienced a significant increase in income from the joining fees for those manufacturers which are required to mandatorily join PIATS as a result of the policy issued in December 2007 by AQSIQ, SAIC and MOC for manufacturers of 69 product types to join PIATS. The Group plans to roll-out value-added services to these manufacturers at the end of 2008. In addition, the Group has recently experienced increases in joining fees for those manufacturers and distributors in the pharmaceutical industry which are mandatorily required to use PIATS as set out in SFDA's policy in April 2008. The Group plans to launch value-added services and other products to those in the pharmaceutical industry at the end of 2008. The Group believes that the roll-out of value-added services and other products, together with the joining fees, will significantly increase revenues from PIATS in the future. Given that there are no other companies that can provide a similar service as PIATS and the strong government support, the Directors believe PIATS continues to have great potential in the coming future.

- **HL95**

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

Future prospect

Due to the additional businesses from various financial institutions, China Mobile Guangdong and PIATS, HL95 has been expanding its call centre capacity in Beijing, Shenzhen and Foshan. HL95 plans to open more call centres in other parts of China to expand its call centre business. HL95 is also working with Salesforce, the largest outsourcing call centre operator in Australia and one of the top call centre operators in the world, to upgrade and expand HL95's call centre business, and explore other call centre related business opportunities in China. Call centre revenues have been increasing robustly in the past few years, and the Directors believe that the call centre revenues will continue to grow rapidly. The Group plans to expand the call centre business with the assistance of Salesforce and the relationship it has with the CITIC Group, China Mobile, PIATS and other customers. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CCIT, in providing the PIATS service, uses HL95's platform to enable consumers anywhere in the PRC to enquire product information by using HL95's IVRS and SMS systems and call centres. The Directors believe that HL95 has good potential in the call centre industry and at the same time can provide valuable support to PIATS.

- **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 430,000 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. In the past year, the number of users using Dongfang Customs services has increased at a healthy 26.5% to around 430,000. However, given that there are only around 430,000 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.

Having a unique advantage of electronic customs processing platform and growing users base, Dongfong Customs is now extending to other areas for future business development and is in the process of developing 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 Group as at 31st March 2008 are detailed as follows:

Location	Telecommunications/ information value-added services	PIATS business	System integration and software development	Corporate	Associate
– Hong Kong	–	–	–	13	–
– The PRC	<u>1,727</u>	<u>99</u>	<u>7</u>	<u>–</u>	<u>300</u>
Total	<u>1,727</u>	<u>99</u>	<u>7</u>	<u>13</u>	<u>300</u>

Total staff costs of the Group for the year ended 31st March 2008 were HK\$70,408,000. All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

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

The Group has also set up share option schemes pursuant to which employees of the Group may be granted options to subscribe for the Company's shares at their 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 2008, 44,000,000 new share options were granted to employees of the Group.

CORPORATE GOVERNANCE

In the opinion of the Directors, throughout the year ended 31st March 2008, 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 2007. 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 REDEMPTION 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 2008.

BOARD COMMITTEES

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

Remuneration Committee

The 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 2008 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 AND IRASIA.COM

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, 23rd July 2008

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, Ms. Xia Guilan; and (ii) three are independent non-executive directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Liu Hongru.