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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2009

The board of directors (the "Directors") of CITIC 21CN Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th September 2009 and the unaudited consolidated statement of financial position of the Group as at 30th September 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2009

		Six months ended 30th September	
		2009	2008
		(Unaudited)	(Unaudited)
	Note	**HK$'000**	HK$'000
Turnover	3	**134,420**	128,325
Cost of sales and services		**(97,479)**	(135,141)
Gross profit (loss)		**36,941**	(6,816)
Other gains and losses	4	**17,608**	527
Administrative expenses		**(64,566)**	(77,880)
Loss on change in fair value of convertible bonds		**–**	(4,007)
Share of profit of an associate	5	**7,664**	4,213
Finance costs		**(595)**	(695)
Loss before taxation	6	**(2,948)**	(84,658)
Taxation	7	**(446)**	(608)
Loss for the period		**(3,394)**	(85,266)
Attributable to:			
Equity holders of the Company		**(3,393)**	(85,266)
Non-controlling interests		**(1)**	–
		(3,394)	(85,266)
		HK cents	HK cents
Loss per share			
Basic	8	**(0.09)**	(2.30)

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2009

	Six months ended 30th September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period	**(3,394)**	(85,266)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	**–**	11,411
Total comprehensive loss for the period	**(3,394)**	(73,855)
Attributable to:		
Equity holders of the Company	**(3,393)**	(73,855)
Non-controlling interests	**(1)**	–
	(3,394)	(73,855)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th September 2009

	Note	**30th September 2009 (Unaudited) HK$'000**	31st March 2009 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**102,162**	112,726
Intangible assets	9	**59,523**	61,563
Interest in an associate		**129,029**	121,366
Loan receivable	10	**36,610**	25,665
Available-for-sale investments		**8,475**	8,475
		335,799	329,795
Current assets			
Amounts due from customers for contract work		**3,978**	3,978
Debtors and prepayments	11	**70,061**	60,201
Investments held for trading		**40,892**	12,650
Bank balances and cash		**148,641**	196,421
		263,572	273,250
Current liabilities			
Creditors and accruals	12	**109,577**	104,532
Taxation payable		**1,022**	897
Short-term bank loans		**19,380**	24,917
		129,979	130,346
Net current assets		**133,593**	142,904
Total assets less current liabilities		**469,392**	472,699
Non-current liability			
Deferred taxation		**640**	640
Net assets		**468,752**	472,059
Capital and reserves			
Share capital	13	**37,179**	37,179
Reserves		**431,563**	434,869
Equity attributable to equity holders of the Company		**468,742**	472,048
Non-controlling interests		**10**	11
Total equity		**468,752**	472,059

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2009

	Share capital (Unaudited) HK$'000	Share premium (Unaudited) HK$'000	Capital reserve (Unaudited) HK$'000	Contributed surplus (Unaudited) HK$'000	Translation reserve (Unaudited) HK$'000	Share options reserve (Unaudited) HK$'000	General reserve (Unaudited) HK$'000	Accumulated losses (Unaudited) HK$'000	Attributable to equity holders of the Company (Unaudited) HK$'000	Non-controlling interests (Unaudited) HK$'000	Total (Unaudited) HK$'000
At 1st April 2009	**37,179**	**769,675**	**19,215**	**78,108**	**60,807**	**23,412**	**11,851**	**(528,199)**	**472,048**	**11**	**472,059**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,393)**	**(3,393)**	**(1)**	**(3,394)**
Total recognised income and expenses for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,393)**	**(3,393)**	**(1)**	**(3,394)**
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**–**	**87**	**–**	**–**	**87**	**–**	**87**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**(225)**	**–**	**225**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**(138)**	**–**	**225**	**87**	**–**	**87**
At 30th September 2009	**37,179**	**769,675**	**19,215**	**78,108**	**60,807**	**23,274**	**11,851**	**(531,367)**	**468,742**	**10**	**468,752**
At 1st April 2008	37,179	769,675	19,215	78,108	48,984	24,965	11,851	(382,471)	607,506	11	607,517
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	11,411	–	–	–	11,411	–	11,411
Loss for the period	–	–	–	–	–	–	–	(85,266)	(85,266)	–	(85,266)
Total recognised income and expenses for the period	–	–	–	–	11,411	–	–	(85,266)	(73,855)	–	(73,855)
Recognition of equity-settled share based payments	–	–	–	–	–	816	–	–	816	–	816
Lapse of share options	–	–	–	–	–	(745)	–	745	–	–	–
	–	–	–	–	–	71	–	745	816	–	816
At 30th September 2008	37,179	769,675	19,215	78,108	60,395	25,036	11,851	(466,992)	534,467	11	534,478

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30th September 2009

	Six months ended 30th September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash (used in)/from operating activities	**(28,724)**	12,140
Net cash used in investing activities	**(12,925)**	(15,092)
Net cash used in financing activities	**(6,131)**	(3,464)
Decrease in cash and cash equivalents	**(47,780)**	(6,416)
Cash and cash equivalent at beginning of the period	**196,421**	288,322
Effect of foreign exchange rate changes	**–**	3,597
Cash and cash equivalent at end of the period, representing bank balances and cash	**148,641**	285,503

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

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

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

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements for the six months ended 30th September 2009 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial statements for the six months ended 30th September 2009 are unaudited and have been reviewed by the audit committee of the Company.

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

The condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31st March 2009. The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31st March 2009.

In the current interim period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), revised Hong Kong Accounting Standards ("HKASs"), amendments and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIS)*-Int 9 and HKAS 39 (Amendment)	Reassessment of Embedded Derivatives
HK(IFRIC)*-Int 13	Customer Loyalty Programmes
HK(IFRIC)*-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)*-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)*-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

2. Basis of preparation and accounting policies (continued)

HKAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKSA 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly no prior period adjustment has been recognized.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)*-Int 17	Distributions of Non-cash Assets to Owners[1]

1 Effective for annual periods beginning on or after 1st July 2009
2 Amendments that are effective for annual periods beginning on or after 1st July 2009 or 1st January 2010, as appropriate
3 Effective for annual periods beginning on or after 1st January 2010
4 Effective for annual periods beginning on or after 1st February 2010
5 Effective for annual periods beginning on or after 1st January 2013

* IFRIC represents the International Financial Reporting Interpretations Committee.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1st January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segmental information

The Group has adopted HKFRS 8 Operating Segments with effect from 1st April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments/geographical segments by location of assets/ geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss. For management purposes, the Group's operations are currently classified under the following business 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 operating segment information. Segment profit represents the profit earned by each segment without allocation of interest income, change in fair value of derivative financial instruments, gain on corporate assets and liabilities, central administration costs and interest expense. This is the measure reported to the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

Principal activities

The Group is an integrated information and content service provider. For management purposes, the Group is organised into three operating divisions namely telecommunications/information value-added services, the provision of PIATS, and system integration and software development.

Segment 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

3. Segmental information (continued)

Principal activities (continued)

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

Six months ended 30th September 2009	**Telecom-munications/ information value-added services (Unaudited) HK$'000**	**PIATS business (Unaudited) HK$'000**	**System integration and software development (Unaudited) HK$'000**	**Total (Unaudited) HK$'000**
Turnover	**129,263**	**5,079**	**78**	**134,420**
Segment results	**3,734**	**(15,114)**	**(1,417)**	**(12,797)**
Other gains and losses				**17,608**
Loss on change in fair value of convertible bonds				**–**
Share option expense				**(87)**
Share of profit of an associate				**7,664**
Finance costs				**(595)**
Unallocated corporate expenses				**(14,741)**
Loss before taxation				**(2,948)**
Taxation				**(446)**
Loss for the period				**(3,394)**

Six months ended 30th September 2008	Telecom-munications/ information value-added services (Unaudited) HK$'000	PIATS business (Unaudited) HK$'000	System integration and software development (Unaudited) HK$'000	Total (Unaudited) HK$'000
Turnover	124,379	3,591	355	128,325
Segment results	(17,293)	(36,808)	(8,604)	(62,705)
Other gains and losses				3,634
Loss on change in fair value of convertible bonds				(4,007)
Share option expense				(816)
Share of profit of an associate				4,213
Finance costs				(695)
Unallocated corporate expenses				(24,282)
Loss before taxation				(84,658)
Taxation				(608)
Loss for the period				(85,266)

4. Other gains and losses

	Six months ended 30th September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from bank deposits	**721**	2,942
Imputed interest income on loan receivable (Note 10)	**452**	313
Change in fair value of investments held for trading	**16,007**	(3,107)
Dividends from equity securities	**422**	379
Others	**6**	–
	17,608	527

5. Share of profit of an associate

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

6. Loss before taxation

	Six months ended 30th September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Staff costs	**36,142**	37,027
– including share option expense of HK$87,000 (2008: HK$816,000) (Note)		
Depreciation	**11,993**	9,094
Operating lease rentals in respect of buildings	**4,527**	5,401
Impairment losses on trade receivables	**979**	9,604

Note: Share option expense represented 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 recognised expense of HK$87,000 for the six months ended 30th September 2009 (2008: HK$816,000) in relation to share options granted by the Company.

7. Taxation

	Six months ended 30th September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax	**–**	–
PRC Enterprise Income Tax		
Jointly controlled entities	**446**	608
	446	608

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30th September 2009 (2008: Nil).

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

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

8. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of HK$3,393,000 (2008: HK$85,266,000) and the weighted average number of 3,717,870,000 (2008: 3,717,870,000) ordinary shares in issue during the period.

(b) Diluted loss per share

No diluted loss per share has been disclosed as the outstanding share options and convertible bonds had an anti-dilutive effect on the basic loss per share for the six months ended 30th September 2009 and 2008.

9. Intangible assets

Intangible assets represented the Group's license rights acquired from third parties. Such licenses are amortised over an estimated useful life of 20 years on a straight-line basis.

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

10. 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 (equivalent to HK$53,820,000) to CCIT for the development of PIATS business. The maturity date of the loan was subsequently extended to 23rd March 2011 with terms and conditions remain unchanged.

On 21st July 2009, CITIC 21CN (China) Technology Company Limited (a wholly owned subsidiary of the Group), entered into a loan agreement with CCIT in which CITIC 21CN (China) Technology Company Limited granted a non-interest bearing and unsecured three-year loan of Rmb20,000,000 (equivalent to HK$22,600,000) to CCIT for the development of PIATS business.

As at 30th September 2009, the carrying amount of the Group's share of the loan receivable was HK$36,610,000 (31st March 2009: HK$25,665,000) with effective interest rate of 2.5% (2008: 2.5%).

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

11. Debtors and prepayments

	30th September 2009 (Unaudited) HK$'000	31st March 2009 (Audited) HK$'000
Trade receivables	**81,904**	67,358
Less: Allowance for doubtful debts	**(25,157)**	(24,178)
	56,747	43,180
Other receivables	**2,036**	2,036
Deposits and prepayments	**11,278**	14,985
	70,061	60,201

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 statement of financial position date:

	30th September 2009 (Unaudited) HK$'000	31st March 2009 (Audited) HK$'000
0-90 days	**40,715**	29,118
91-180 days	**6,978**	3,429
181-360 days	**610**	710
Over 360 days	**8,444**	9,923
	56,747	43,180

12. Creditors and accruals

	30th September 2009 (Unaudited) HK$'000	31st March 2009 (Audited) HK$'000
Trade payables	**31,543**	31,905
Receipts in advance from customers	**4,155**	6,996
Other payables and accruals	**73,879**	65,631
	109,577	104,532

The following is an aged analysis of trade payables at the statement of financial position date:

	30th September 2009 (Unaudited) HK$'000	31st March 2009 (Audited) HK$'000
0-90 days	**13,194**	12,078
91-180 days	**398**	1,348
181-360 days	**1,506**	3,363
Over 360 days	**16,445**	15,116
	31,543	31,905

13. Share capital

	Number of ordinary shares	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 31st March 2009 and 30th September 2009	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 31st March 2009 and 30th September 2009	3,717,869,631	37,179

14. Commitments

(a) Capital commitment

	30th September 2009 (Unaudited) HK$'000	31st March 2009 (Audited) HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**375**	444

(b) Operating lease commitments

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

	30th September 2009 (Unaudited) HK$'000	31st March 2009 (Audited) HK$'000
Within one year	**5,478**	6,861
In the second to fifth year inclusive	**2,172**	3,457
	7,650	10,318

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

15. Related party transactions

The following is a summary of the significant related party transactions carried out in the normal course of the business activities of the Group during the period:

	Six months ended 30th September	
	2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Telecommunications/information value-added services agency fee (note a)	**4,487**	1,113

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

16. Litigation

On 29th October 2009, the Company received the Arbitration Notice issued by China International Economic and Trade Arbitration Commission ("CIETAC"). According to the Arbitration Notice, Beijing Oracle Software Systems Co., Ltd. ("Oracle Beijing") submitted an application in relation to an arbitration (the "Arbitration") on the dispute arising from the Payment Agreement signed by Oracle Beijing, CITIC 21CN (China) Technology Co., Ltd., the Company and Oracle Systems Hong Kong Limited on 30th May 2006. The Payment Agreement set out the settlement arrangement of license fee and service fee in relation to the Oracle License and Services Agreement. The reason for the dispute over the Payment Agreement was that the parties to the agreements could not reach a consensus on the execution of the agreements. The Company had sought legal advice in relation to the Arbitration and considered that it had reasonable prospects in having the Arbitration Application dismissed by CIETAC. Details of the litigation were set out in the Company's announcement dated 16th November 2009.

FINANCIAL REVIEW

The key financial figures of the Group for the six months ended 30th September 2009 and the comparative figures for the six months ended 30th September 2008 were summarised as follows:

	2009 **HK$'000**	2008 HK$'000	Change %
Turnover	**134,420**	128,325	4.7
Gross profit (loss)	**36,941**	(6,816)	N/A
Gross profit (loss) percentage	**27.4%**	(5.3%)	N/A
Other gains and losses	**17,608**	527	3,241.2
Administrative expenses	**64,566**	77,880	(17.1)
Loss on change in fair value of convertible bonds	**–**	4,007	N/A
Share of profit of an associate	**7,664**	4,213	81.9
Net loss attributable to equity holders	**3,393**	85,266	(96.0)
Loss per share			
Basic	**0.09 cents**	2.30 cents	(96.0)

FINANCIAL REVIEW (continued)

Results

– *Turnover*

Turnover of the Group for the six months ended 30th September 2009 was HK$134,420,000, an increase of 4.7% as compared with the turnover of HK$128,325,000 for the six months ended 30th September 2008. The increase was mainly due to the following reasons:

(a) 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited) ("HL95"), a 49%-owned jointly controlled entity of the Group, is engaged in telecommunications/information value-added services. The Group's share of the turnover of HL95 for the six months ended 30th September 2009 increased by 3.9% to HK$129,263,000 from HK$124,379,000 for the six months ended 30th September 2008. The Group's share of the turnover of HL95 comprised HK$59,640,000 (2008: HK$50,909,000) from short messaging services ("SMS"), HK$15,746,000 (2008: HK$14,844,000) from fixed-line interactive voice response system ("IVRS"), HK$14,119,000 (2008: HK$11,614,000) from mobile IVRS, HK$10,163,000 (2008: HK$11,906,000) from Internet-protocol ("IP") phone, HK$24,134,000 (2008: HK$34,553,000) from call centres, and HK$5,461,000 (2008: HK$553,000) from other value-added services. The increase in turnover was mainly due to the increase in SMS revenue, mobile IVRS revenue and other value-added services revenue. The introduction of several new and innovative services, including the promotion for the consumers' enquiry on the product information through PIATS, had stimulated the SMS revenue to rise by 17.2% to HK$59,640,000 during the period. Mobile IVRS revenue increased by 21.6% or HK$2,505,000 was due to more cooperation with media, mainly TV and radio stations, to provide IVRS related services across China. Increase in other value-added service revenue was mainly due to the revenue generated from the sales of calling cards for telecom operators and the revenue generated from other developing projects following the issuance of 3G licenses last year. Due to the keen competition from other IP phone providers, IP phone revenue decreased by 14.6% or HK$1,743,000 during the period. Decrease in call centre revenue by 30.2% to HK$24,134,000 was due to the consolidation of the business after the rapid growth in mid 2008. Nevertheless, HL95's call centre capacity still continued to grow during the period. HL95 has successfully reinforced the long-term relationship with certain major call centre accounts, including China Mobile Guangdong and CITIC Bank. HL95 has become one of the main reputable operators in the call centre industry in China.

(b) 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited) ("CCIT"), a 50%-owned jointly controlled entity of the Group, is engaged in the Product Identification, Authentication and Tracking System ("PIATS"). The Group's share of the revenue of CCIT for the six months ended 30th September 2009 increased by 41.4% to HK$5,079,000 from HK$3,591,000 for the six months ended 30th September 2008. Increase in revenue during this period was mainly attributable to more comprehensive usage of PIATS in food & beverage, agricultural resources, household appliance and drug industries when compared with last corresponding period.

(c) 廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle"), a wholly-owned subsidiary of the Group, is engaged in software development and system integration services and its turnover for the six months ended 30th September 2009 was HK$78,000 as compared with the turnover of HK$355,000 for the six months ended 30th September 2008. The operations of Grand Cycle have been scaling down and the turnover for the current period represented those revenue generated from the outstanding system integration service contracts to the telecom industry.

FINANCIAL REVIEW (continued)

Results (continued)

– *Gross profit (loss) percentage*

The Group reported a gross profit percentage of 27.4% during the six months ended 30th September 2009 as compared with the gross loss percentage of 5.3% during the six months ended 30th September 2008, because of the improved gross profit margin for HL95 and the significant reduction in direct operating costs for both HL95 and CCIT businesses.

HL95's gross profit percentage improved significantly mainly because of the leveraging on its partnership with various new content providers and media which contributed higher margin activities, and the strict control of direct operating costs during the period. Moreover, HL95's gross profit margin was improved because of the absence of non-recurring broadband network expense as like in last corresponding period.

In the current period CCIT continued to build the infrastructure for PIATS. With the implementation of stringent direct operating cost control measures by the management, including the significant reduction in supporting fee for the PIATS platform, the gross loss percentage was significantly reduced when compared with last corresponding period.

– *Other gains and losses*

During the six months ended 30th September 2009, other gains and losses were HK$17,608,000 as compared with HK$527,000 for the six months ended 30th September 2008. Such sharp increase was mainly attributable to the gain on change in fair value of held for trading investments of HK$16,007,000 as contrasted with the loss of HK$3,107,000 for the six months ended 30th September 2008, as a result of the gradual recovery of the investment market during the period after the financial crisis in 2008. Interest income was decreased by 75.5% to HK$721,000 when compared with HK$2,942,000 for the six months ended 30th September 2008, as a result of reduction in bank deposit amount and bank interest rate during the period.

– *Administrative expenses*

Administrative expenses for the six months ended 30th September 2009 was HK$64,566,000, representing a decrease of 17.1% over HK$77,880,000 for the six months ended 30th September 2008. Such decrease was mainly due to the stricter administrative cost control measures implemented by the management; and the significant reduction in making further allowances for doubtful debts and terminated project costs as in last corresponding period, because that the overall economy has begun to show certain signs of recovery during this period.

– *Share of profit of an associate*

Share of profit of an associate represented the share of profit of a 30%-owned associate, 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited) ("Dongfang Customs), which was engaged in electronic customs processing and other electronic government services. The share of profit of Dongfang Customs was HK$7,664,000 for the six months ended 30th September 2009, an increase of 81.9% as compared with HK$4,213,000 for the six months ended 30th September 2008. Dongfang Customs has been upgrading its existing system by introducing more new and enhanced features to attract users using their services. Such increase was mainly attributable to the more popular usage to the new and enhanced features by its users.

– *Net loss attributable to equity holders*

Net loss attributable to equity holders for the six months ended 30th September 2009 was HK$3,393,000, representing a decrease of 96.0% over HK$85,266,000 for the previous period, mainly because of the significant improvement in gross profit margin; the sharp increase in other gains and losses; and the substantial reduction in administrative expenses as explained above.

– *Loss per share*

Basic loss per share was HK0.09 cents for the six months ended 30th September 2009, representing a decrease of 96.0% over HK2.30 cents for the six months ended 30th September 2008.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 30th September 2009 and the corresponding comparative figures as at 31st March 2009 are summarised as follows:

	30th September 2009 HK$'000	31st March 2009 HK$'000
Current assets	**263,572**	273,250
Including		
– bank balances and cash (mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	**148,641**	196,421
– debtors	**58,783**	45,216
Current liabilities	**129,979**	130,346
– including short-term bank loans	**19,380**	24,917
Current ratio (current asset/current liabilities)	**2.03**	2.10
Quick ratio (bank balances and cash and debtors/current liabilities)	**1.60**	1.85
Shareholders' equity	**468,742**	472,048
Gearing ratio (bank loans/shareholders' equity)	**4.13%**	5.28%

Bank balances and cash decreased by 24.3% from HK$196,421,000 as at 31st March 2009 to HK$148,641,000 as at 30th September 2009. The decrease in bank balances and cash was principally due to the increase in investments held for trading, the repayment of certain bank loans, and the increase in trade debtors from HL95's normal business activity.

As at 30th September 2009, trade debtors aged over 12 months were HK$8,444,000 (31st March 2009: HK$9,923,000), most of which were related to system integration and software development business.

Bank loans on the consolidated statement of financial position as at 30th September 2009 and 31st March 2009 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 30th September 2009, the Group reported relatively steady current and quick ratios. The current ratio was 2.03 (31st March 2009: 2.10), and the quick ratio was 1.60 (31st March 2009: 1.85). The Group considers that the existing current and quick ratios are in healthy level.

Shareholders' equity decreased from HK$472,048,000 as at 31st March 2009 to HK$468,742,000 as at 30th September 2009, mainly because of the net loss of the Group incurred during the six months ended 30th September 2009.

The Group's gearing ratio decreased from 5.28% as at 31st March 2009 to 4.13% as at 30th September 2009, because of the repayment of certain bank loans and the reduction in shareholders' equity resulting from the net loss of the Group incurred during the six months ended 30th September 2009.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES (continued)

The Group's operations and transactions are principally located in the PRC. Other than the bank balances and cash most of which are placed in fixed deposits and liquid investments denominated in US dollars or Hong Kong 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 minor change in the exchange rate of Renminbi against Hong Kong dollars would not result in a substantial exchange gain or loss for the Group as the net assets of the Group's operating subsidiaries and jointly controlled entities in 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, emphasising on innovation as well as seeking ways to apply the latest information technology to provide unique information service to the PRC governmental departments, manufacturers, the pharmaceutical industry and consumers. The Group's major clients are sizable and prestigious PRC manufacturers. Our information service will also expedite the development of small to medium sized manufacturers. As a result, the Group has received strong support from the PRC government.

- **CCIT**

  CCIT, a 50%-owned jointly controlled entity of the Group, is principally engaged in the provision of product tracking, recall and enforcement information for relevant PRC authorities through the operation of PIATS; the provision of product tracking and logistics information to the manufacturers; and the provision of service for the consumers to verify product information and origin. With the support from the relevant PRC authorities since its launch, the application of PIATS has been broadly extended countrywide to various products such as food and beverage, agricultural resources, household appliances and drugs, through which staging achievement has been reached, enterprise product brand name and orderly market have been effectively maintained, and helping the market set up a product credit system that has been recognized by consumers, government and enterprises.

  As the relevant PRC authorities have not yet further issued supplemental work rules for PIATS implementation, some enterprises did encounter uncertainties in implementing PIATS project, putting the operation of CCIT under greater challenge during this result period. In response to such situation, the company led the way to put forth the market-oriented initiatives. On one hand, the company actively cooperated with the relevant PRC authorities to put in continuous effort to push forward the PIATS project; on the other hand, the company deeply focused on the development of enterprise value-added applications, with an aim to raise the acceptance level of enterprises towards PIATS. Preliminary results are shown for these measures.

  As to the area of drugs monitoring, PIATS continued its progress with great growth momentum. Over 1,000 items of the 4 major categories of type II mental disorder drugs, blood products, vaccines and Chinese medicine injections have been included in PIATS, and the implementation of PIATS project for these drug manufacturers and distributors throughout the country have basically been completed with expected results accomplished. On such outcome, the recent files issued by the relevant PRC authorities continue to state expressly its target to extend the scope of drugs monitoring electronically.

  Future prospect

  The company will actively cooperate with the relevant PRC authorities to push forward the PIATS project, and will lead the way first to put forth the market-oriented initiatives. In the following year, the management considers that the first breakthrough of PIATS will probably be coming from drugs, agricultural resources, and food and beverage fields. The company will continue its effort to develop new business models with a bid to change the current single revenue model of PIATS. The management believes that the value of PIATS can be comprehensively explored and enhanced through the reinforcement in information service for enterprise management use and through the improvement in service quality provided to enterprises, from which our revenue model could be diversified. The management has confidence that PIATS can reduce counterfeit products, improve product safety and foods and drug safety, and protect consumers, manufacturers and intellectual property rights. Given that there are no other companies that can provide a similar service as PIATS at the moment, the directors believe that there is great potential for PIATS.

BUSINESS REVIEW (continued)

- **HL95**

  HL95 is a nationwide telecommunications/information value-added services ("VAS") company in the PRC and is licensed by the Ministry of Industries and Information 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.

  Future prospect

  The rapid development of 3G and mobile internet will continuously create immense business opportunities for HL95. With many years of good long-term relationship with telecom operators and content providers, HL95 will work closely with them so as to provide the latest 3G contents. The growth of call centre revenue is expected to continue with good reputation earned by HL95 in the call centre industry in the PRC. HL95 is now exploring with many new potential customers outside of its main call centre facilities in Beijing, Shenzhen and Foshan and is planning to expand its call centre related operations to other cities across China for new business opportunities. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CCIT, in providing the PIATS service, uses HL95's platform to enable consumers anywhere in the PRC to enquire product information by HL95's IVRS and SMS systems and call centres. The Directors believe that HL95 has good potential in the call centre industry and at the same time can provide valuable support to PIATS.

- **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. Moreover, Dongfang Customs provides technical support and database management services to its users. Dongfang Customs' users principally included manufacturers and import/export corporations for customs declaration and clearance services, and banks for foreign exchange monitoring and online payments.

  Future prospect

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

- **Grand Cycle**

  Grand Cycle is engaged in system integration and software development.

  Future prospect

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

EMPLOYEES AND REMUNERATION POLICIES

The numbers of full-time employees of the Company and its subsidiaries, HL95, CCIT and Dongfang Customs as at 30th September 2009 are detailed as follows:

Location	Telecommunications/ Information value-added services	PIATS business	System integration and software development	Corporate	Associate
– Hong Kong	–	–	–	12	–
– The PRC	1,938	54	6	–	270
Total	1,938	54	6	12	270

Total staff costs of the Group for the six months ended 30th September 2009 were HK$36,142,000. All the staff 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 six months ended 30th September 2009, no share options were granted to employees of the Group.

INTERIM DIVIDEND

The Board of Directors resolved that no interim dividend be declared for the six months period ended 30th September 2009 (2008: Nil).

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

The Company has not redeemed any of its listed securities of the Company during the period under review. Neither the Company nor any of its subsidiaries has purchased or sold any of listed securities of the Company during the period under review.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the accounting period under review, except for the deviations from code provisions A4.1, A.4.2 and E.1.2 of the Code as described below.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office. However, the non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All directors except the Chairman of the Company are subject to retirement by rotation pursuant to the Company's Bye-Laws. According to the Company's Bye-Laws, one-third of the directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office at each annual general meeting. The relevant provisions of the Company's Bye-Laws will be reviewed and amendment will be proposed if necessary, to ensure full compliance with code provision A.4.2 of the Code.

Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend annual general meetings. The annual general meeting of the Company on 31st August 2009 had not been held in full compliance with this code provision. The meeting was however conducted in a good and proper manner.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry to all directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

For the period from 1st April 2009 to 30th September 2009, the Audit Committee comprises three independent non-executive directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Mr. Chen Wuzhao and Dr. Hui was the Chairman of the Audit Committee. On 2nd November 2009, Mr. Chen Wuzhao resigned as an independent non-executive director and audit committee member. Dr. Long Junsheng was appointed as an independent non-executive director and audit committee member to fill up the vacancies on the same date. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30th September 2009.

PUBLICATION OF INTERIM RESULT ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND IRASIA.COM

An interim result containing all the information required by Appendix 16 of the Listing Rules will be published in due course on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and on the website of irasia.com Limited (www.irasia.com/listco/hk/citic21cn/).

By Order of the Board
CITIC 21CN COMPANY LIMITED
CHEN XIAO YING
Vice Executive Chairman

18th December 2009

As at the date of this announcement, the Board comprises Mr. Wang Jun, Ms. Chen Xiao Ying, Mr. Luo Ning, Mr. Sun Yalei, Mr. Zhang Lian Yang, Ms. Xia Guilan, Dr. Hui Ho Ming, Herbert (Independent Non-executive Director), Mr. Zhang Jian Ming (Independent Non-executive Director) and Dr. Long Junsheng (Independent Non-executive Director).