CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 241

ANNUAL REPORT 2007

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jun *(Chairman)*
Ms. CHEN Xiao Ying *(Executive Vice Chairman)*
Mr. LUO Ning *(Vice Chairman)*
Mr. SUN Yalei
Mr. ZHANG Lian Yang
Ms. XIA Guilan

Independent Non-executive Directors

Dr. HUI Ho Ming, Herbert, JP
Mr. ZHANG Jian Ming
Mr. LIU Hongru

COMPANY SECRETARY

Mr. YEE Foo Hei, ACS, ACIS, FCCA

QUALIFIED ACCOUNTANT

Mr. HUI Man Chun, FCCA, FCPA

AUTHORISED REPRESENTATIVES

Ms. CHEN Xiao Ying
Mr. YEE Foo Hei, ACS, ACIS, FCCA

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suites 7001-7005, 70/F
Two International Finance Centre
8 Finance Street, Central
Hong Kong

STOCK CODE

241

LEGAL ADVISORS

Hong Kong

Tung & Co.

Bermuda

Appleby Spurling Hunter

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
Argyle House, 41A Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

CHAIRMAN'S STATEMENT

2006/2007 was a remarkable year for CITIC 21 CN COMPANY LIMITED ("CITIC 21 CN") and its subsidiaries (collectively "the Group"). The Group maintained steady growth in its various business and achieved an overall favorable growth momentum.

PIATS

The Product Identification, Authentication, Tracking System ("PIATS") developed by the Group's subsidiary China Credit Information Technology Co., Ltd. is the key business of the Group. The Group has smoothly accomplished each of its projects with the strong support of the relevant ministries and government departments such as Ministry of Commerce, the General Administration of Quality Supervision, Inspection and Quarantine and the State Food and Drug Administration. The Group has made significant achievements in the construction of fundamental platform, the establishment of database, the installation of enquiry terminal machine and the joining of network by enterprises with the entering into Co-operation Framework Agreements with domestic telecommunications operators.

As at 31 March 2007, enterprises that have joined the network amounted to 13,000.

The General Administration of Quality Supervision, Inspection and Quarantine has also established the PIATS promotion work office in order to monitor and promote PIATS in key provinces such as Beijing, Shanghai, Jiangsu, Tianjin, Zhejiang, Guangdong, Hebei and Shandong. With the cooperation of the State Food and Drug Administration, the Group has smoothly widened the scope of application of PIATS to the medical industry.

The Group will continue to seriously consider the needs of enterprises, further enhance the quality of information value-added services, fully expand the functions of its integrated information service platform, assist the government by providing the tools to monitor electronically product manufacturing, assist enterprises to obtain market management information, assist consumers by providing enquiry terminals to check product information so as to establish a leading position in the PRC information service sector through the provision of such services.

HL95

Honglian 95 Information Industries Company Limited (HL 95) continued to provide a nationwide platform for promotion of the PIATS business. By entering into co-operation agreements with various banking and financial institutions and telecommunication services providers, HL 95 has achieved substantial breakthrough and it is expected that favourable results would be achieved in the coming year.

With the proactive initiatives undertaken by HL95, substantial increase in its mobile IVR tariff was recorded and this would serve as a foundation for the Company's long term development.

Dongfang Customs

Dongfang Customs Technology Company Limited ("Dongfang Customs") is a joint venture jointly established by the Company, the PRC Customs Department and China Telecom. It is principally engaged in electronic customs processing business and is the only operator that provides electronic customs processing services. It is expected that Dongfang Customs will attract more customers and generate more revenue as China's economy grows.

Grand Cycle

Grand Cycle Technology Company Limited ("Grand Cycle") provides support to HL 95 and PIATS in respect of software integration and software development.

Looking forward to 2007/2008, PIATS will enter into a critical stage with rapid development. Besides optimizing its high-performance application platform and further enhancing its integrated information services, the Group will adhere to its business development strategies and strive to boost its management standards and operation efficiency with an aim to maximizing the returns of our shareholders.

On behalf of the Board of Directors, I would like to express my sincere gratitude for the earnest support from our shareholders, government authorities, business partners, financial institutions, our staff and parties from the society.

Wang Jun
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

	2007	2006	Change
	HK$'000	HK$'000	%
Turnover	**286,057**	403,545	(29.1)
Gross profit	**64,930**	184,063	(64.7)
Gross profit percentage	**22.7%**	45.6%	N/A
Other income	**27,098**	7,492	261.7
Administrative expenses	**139,143**	135,358	2.8
Share option expense	**1,272**	16,046	(92.1)
Convertible bonds issue expenses	**–**	26,480	N/A
Change in fair value of convertible bonds	**19,807**	1,420	1,294.9
Change in fair value of loan receivable	**–**	1,246	N/A
Start up expenses of jointly controlled entity	**–**	1,207	N/A
Share of profit of an associate	**6,718**	9,725	(30.9)
(Loss) profit before interest, taxes, depreciation and amortization, and after minority interests	**(45,684)**	33,039	N/A
Net (loss) profit attributable to shareholders	**(60,998)**	9,153	N/A
(Loss) earnings per share			
Basic	**(1.84) cents**	0.28 cents	N/A
Diluted	**N/A**	0.27 cents	N/A

FINANCIAL REVIEW *(Continued)*

RESULTS

– **Turnover**

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

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

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

FINANCIAL REVIEW *(Continued)*

RESULTS *(Continued)*

– **Turnover** *(Continued)*

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

– **Gross profit percentage**

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

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

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

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

FINANCIAL REVIEW *(Continued)*

RESULTS *(Continued)*

– **Other income**

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

– **Administrative expenses**

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

– **Share option expense**

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

– **Change in fair value of convertible bonds**

The Group recorded a loss on change in fair value of convertible bonds of HK$19,807,000 for the year ended 31st March 2007 (2006: HK$1,420,000). The Company issued US$55 million and US$15 million, zero coupon convertible bonds at a par value of US$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Group has adopted Hong Kong Accounting Standards ("HKAS") 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement, for the Bonds. The Bonds are carried at fair value at the balance sheet date and the changes in fair value of the Bonds between 31st March 2006 and 31st March 2007 are recognized in the income statement during the year ended 31st March 2007. The increase in the change in fair value mainly represented an imputed interest on the Bonds.

FINANCIAL REVIEW *(Continued)*

RESULTS *(Continued)*

– **Share of profit of an associate**

Share of profit of an associate represents the share of profit of a 30%-owned associate, 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited) ("Dongfang Customs"), a joint venture with the PRC Customs Department and China Telecom, engaged in electronic customs processing and other electronic government services. The share of profit of Dongfong Customs was HK$6,718,000 for the year ended 31st March 2007, a decrease of 30.9% as compared with HK$9,725,000 for the year ended 31st March 2006. Dongfang Customs used to have three main sources of revenue: electronic port project development, sales of SIM cards and readers, and sales of value-added cards. During the year ended 31st March 2007, revenue from electronic port project development decreased significantly since these projects were completed during the year. Since then, Dongfang Customs has shifted its focus to concentrate on its SIM cards and readers, and sales of value-added cards businesses. SIM card and readers are used by customers to access the system for electronic custom filing and declaration. Value-added cards are purchased by customers to recharge the value for use of SIM cards. The management of Dongfang Customs believe that the SIM cards and readers, and value-added cards businesses provide a stable revenue stream and profitability in the long-term. Because of this shift in focus, the electronic port project development revenue decreased by HK$9 million to HK$23 million while revenues from sales of SIM cards and readers increased by HK$22 million to HK$25 million during the current year. Dongfang Customs has adopted a new strategy in the current year to be directly involved in the sales of SIM cards and readers (rather than through other suppliers) and charge less for the SIM cards and reader in order to increase the number of customers in using electronic custom filing and declaration. Selling and administration expenses also increased because of the increased business promotion, headcount and rental expenses to cope with the expansion in the SIM cards and readers, and value-added cards businesses. As a result, there was a reduction in the current year's profit in exchange for a larger customer base and long-term growth and profitability.

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

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

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

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

– **Net (loss) profit attributable to shareholders**

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

Net loss attributable to shareholders for the year ended 31st March 2007 of HK$60,998,000 was mainly due to non-cash items arising from the revaluation of the fair value of convertible bonds of HK$19,807,000, share option expense of HK$1,272,000, depreciation of HK$11,328,000 and amortization of HK$912,000. The fair value adjustments of convertible bonds and share option expense were in accordance with new accounting standards starting from the year ended 31st March 2006. Excluding the above non-cash items, the net loss would be HK$27,679,000.

– **(Loss) earnings per share**

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

FINANCIAL REVIEW *(Continued)*

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

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

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

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

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

FINANCIAL REVIEW *(Continued)*

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES *(Continued)*

Bank loans on the consolidated balance sheets as at 31st March 2007 and 31st March 2006 were the Group's share of HL95's bank loans, which were short-term in nature, denominated in Renminbi and repayable within one year, and carried interest at prevailing market rates.

As at 31st March 2007, the current ratio improved to 8.30 from 6.91 as at 31st March 2006, and the quick ratio also improved to 6.94 from 6.30.

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

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

The Group's operations and transactions are principally located in the People's Republic of China ("PRC"). Other than the convertible bonds which are denominated in US dollars and the bank balances and cash most of which are placed in fixed deposits and liquid investments denominated in US dollars, other assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi. The Directors believe that there will not be material fluctuation in the exchange rate of US dollars against Hong Kong dollars, the reporting currency, in the foreseeable future, and the gradual and slight increase in the exchange rate of Renmimbi against Hong Kong dollars would result in exchange gain for the Group as the net assets of the Group's operating subsidiaries and jointly controlled entities in the PRC are denominated in Renmimbi. Therefore, the operations of the Group are not subject to significant exchange rate risk.

BUSINESS REVIEW

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

– **CCIT**

CCIT, a joint venture among the Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ"), China Telecom and the Group, is principally engaged in the provision of product quality supervision and enforcement information for the relevant PRC authorities through the operation of PIATS; the provision of product information to the manufacturers from the manufacturing to the distribution and sale of the product; the provision of a simple, convenient and efficient way for the consumers to enquire product information, and check whether the products are counterfeit products or products with poor quality or safety; and the provision of an interactive channel for the consumers to report counterfeit products or products with poor quality or safety. CCIT has established a leading position in the PRC information service sector by providing manufacturers and consumers with these information value-added services.

During the current year, CCIT was still in the start-up phase but has obtained strong support from government departments such as AQSIQ, State Administration of Industries and Commerce ("SAIC"), Ministry of Commerce ("MOC") and Ministry of Agriculture ("MOA"). In July 2006, an important signing ceremony was held at The Great Peoples' Hall in Beijing where the 128 top domestic brand name manufacturers such as Haier, Moutai Liquor, Wuliangye Liquor, Tsingtao Beer, Shineway Group, Hainan Coconut Palm coconut juice etc signed up for PIATS. In the same month, the Group announced a strategic partnership with Oracle to develop the PIATS database and platform. In August 2006, AQSIQ and SAIC issued measures to give incentives to manufacturers that join PIATS. Good track records in PIATS are considered favourably in applying for various government certifications such as well-known countrywide brand, exemption from government quality inspection, etc. Government would also simplify the procedures for licence renewal if the manufacturers have a good PIATS track record. In January 2007, AQSIQ has formally established a PIATS promotion work office (中國產品質量電子監管網推進工作辦公室), in which the members comprise, inter alia, the functional heads of AQSIQ comprising head of quality management (質量管理司司長), vice-head of product quality supervision (產品質量監督司副司長), vice-head of monitoring food products production (食品生產監管司副司長) and vice-head of counterfeit products law enforcement and inspection (執法督查司副司長). These functional heads of AQSIQ are responsible for quality products government certification, exemption from government quality inspection, food products license renewal and law enforcement of counterfeit or poor quality or unsafe products. The main responsibility of the work office is to organise, co-ordinate and supervise all AQSIQ provincial and branch offices for the nation-wide roll out of PIATS. In May 2007, AQSIQ issued a PIATS promotion work plan to schedule an additional 20,000 manufacturers to join PIATS in 2007. Since the initial roll-out of PIATS to the date of the announcement for the final results for the year ended 31st March 2007, over 19,000 manufacturers across China have joined PIATS.

BUSINESS REVIEW *(Continued)*

– **CCIT** *(Continued)*

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

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

Future prospect

Since the launch of PIATS, CCIT has experienced positive response from manufacturers, consumers, AQSIQ, SFDA, SAIC, MOC and MOA and other government departments. Senior government officials have provided tremendous support for PIATS since it reduces counterfeit products, improves product safety and foods and drugs safety, and protects consumers, manufacturers and intellectual property rights. In the coming months, the Group will continue to sign up manufacturers to join PIATS, especially in the pharmaceutical, tobacco, liquor and food products industries. Given that there are no other companies that can provide a similar service as PIATS and the strong government support, the Directors believe there is great potential for PIATS.

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 Information Industry ("MII") on the provision of SMS, IVRS and other telecom services in the PRC. HL95 provides IVRS services through both fixed telephone line network and mobile phone network, and SMS services through the mobile phone network (both in collaboration with the telecom operators) which covers the whole country. HL95 offers governmental, commercial and entertainment information through its SMS and IVRS services. HL95 also provides other telecommunication/information VAS such as IP phone service and customer care call centres services.

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

Future prospect

HL95 intends to enrich its service varieties and plans to work with more content providers, government departments and large corporations to provide more telecommunication/information VAS and call centre services to ensure a stable growth for its existing businesses. Following the co-operation contracts entered into with various financial institutions and large corporations recently, HL95 is now expanding its Shenzhen call centre capacity from 200 seats to 800 seats. HL95 is also in preliminary discussions with the largest outsourcing call centre operator in Australia to explore joint business opportunities in China. HL95 is an important platform for the Group since it enables the Group to promote the information services of PIATS. For example, CCIT, in providing the PIATS service, uses HL95's platform to enable consumers anywhere in the PRC to enquire product information using HL95's IVRS and SMS systems. The Directors believe that HL95 has good potential since the information services or content generated from the existing business or new business of the Group can be offered nation-wide using HL95's platform. Moreover, the roll out of PIATS will have a positive effect for HL95's business.

BUSINESS REVIEW *(Continued)*

– **Dongfang Customs**

Dongfang Customs, a joint venture with the PRC Customs Department and China Telecom, is engaged in electronic customs processing and other electronic government services. Dongfang Customs provides customs filing and declaration, identity authentication, online payments, electronic customs tax and foreign exchange filings, billing and other customs related services. Dongfang Customs' users principally include manufacturers and import/export corporations. Currently, Dongfang Customs has around 340,000 users. Users are principally charged a time-based telecommunication fee for accessing the network platform.

Future prospect

The PRC government has been encouraging manufacturers and import/export corporations to perform the customs declaration processing electronically as it not only speeds up the customs declaration procedures but also helps minimizing the handling costs involved in the declaration. Given that there are only around 340,000 users, and China is the manufacturing base for the world, the Directors believe that there is great potential for Dongfang Customs to increase its users base. In addition, the Group anticipates that the number of users will increase in line with the economic growth of the PRC. In the current year, Dongfang Customs has begun to take a more active role in marketing its services to manufacturers and import/export corporations by advertising in magazines and concentrating its efforts in the sales of SIM cards and readers (by lowering their prices and directly handling the sales instead of using third parties) which are required by users to access the electronic customs declaration system, and sales of value-added cards.

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

– **Grand Cycle**

Grand Cycle is engaged in system integration and software development.

Future prospect

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

EMPLOYEES AND REMUNERATION POLICIES

The numbers of full-time employees of the Company and its subsidiaries, HL95, CCIT and Dongfang Customs as at 31st March 2007 are detailed as follows:

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

Total staff costs of the Group for the year were HK$66,174,000 in which HK$39,303,000 and HK$6,371,000 were the portions attributable to the Group in HL95 and CCIT respectively. All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

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

The Group has also set up share option schemes pursuant to which employees of the Group may be granted options to subscribe for the Company's shares at their absolute discretion. The subscription price, exercise period and the number of options to be granted are determined in accordance with the prescribed terms of the schemes. During the year ended 31st March 2007, no share options were granted to employees or other eligible persons.

DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is an integrated information and content service provider. The principal 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.

An analysis of the Group's performance for the year by business segments is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 34 of this annual report.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 36 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the consolidated financial statements.

No pre-emptive rights exist under the Company's Bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80 of this annual report.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors

Mr. Wang Jun *(Chairman)*
Ms. Chen Xiao Ying *(Executive Vice Chairman)*
Mr. Luo Ning *(Vice Chairman)*
Mr. Sun Yalei
Mr. Zhang Lian Yang
Ms. Xia Guilan

Independent non-executive directors

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

In accordance with Clause 99 of the Bye-laws of the Company, Mr. Sun Yalei, Mr. Zhang Lian Yang and Ms. Xia Guilan will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has complied with the requirements of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to have 3 Independent Non-executive Directors. The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 26 to 27 of this annual report.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the convertible bonds, warrants and share options as set out in notes 27, 28 and 30 respectively to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st March 2007, Particulars of the conversion of the convertible bonds, and the exercise of warrants or similar rights during the year are set out in the aforesaid notes.

SHARE OPTION AND WARRANTS

During the year ended 31st March 2005, a rights issue of warrants at an initial subscription price of HK$0.10 per warrant was made in the proportion of one warrant for every six shares held by members on the register of members on 25th February 2005, resulting in 550,697,664 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.01 at an initial exercise price of HK$2.40 per share, payable in cash and subject to adjustment, at any time from 18th March 2005 to 17th September 2006.

During the year, five warrants were exercised and the remaining balances of warrants were lapsed. At the balance sheet date, the Company had no warrants outstanding.

At the annual general meeting of the Company held on 30th August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") under which the Directors of the Company may at their discretion, invite Executive Directors and key employees of the Company or its subsidiaries and other eligible persons as defined in the New Scheme to subscribe for shares in the Company subject to terms and conditions stipulated therein. On the same date, the share option scheme approved by the shareholders on 28th May 1998 (the "Old Scheme") was terminated such that no further options shall be offered but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

SHARE OPTION AND WARRANTS *(Continued)*

Details of the movement of the share options granted under the Old Scheme and New Scheme during the year are set out below:

				Number of options					
	Date of grant	Exercise price HK$	Exercise period	At 1st April 2006	Granted during the year	Lapsed during the year	Exercised during the year	At 31st March 2007	Term of new scheme to mention
Directors									
Mr. Wang Jun	23.3.2005	3.175	23.3.2006 to 23.3.2015	10,000,000	–	–	–	10,000,000	∂
	23.3.2005	3.175	23.3.2007 to 23.3.2015	10,000,000	–	–	–	10,000,000	∂
	23.3.2005	3.175	23.3.2008 to 23.3.2015	10,000,000	–	–	–	10,000,000	∂
Ms. Chen Xiao Ying	13.7.2000	0.9900	13.1.2001 to 27.5.2008	21,000,000	–	–	–	21,000,000	Δ
	13.7.2000	0.9900	13.7.2001 to 27.5.2008	21,000,000	–	–	–	21,000,000	Δ
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	28,000,000	–	–	–	28,000,000	Δ
	24.6.2003	0.3220	10.9.2004 to 23.6.2013	30,000,000	–	–	–	30,000,000	∂
	24.6.2003	0.3220	10.3.2005 to 23.6.2013	30,000,000	–	–	–	30,000,000	∂
	24.6.2003	0.3220	10.9.2005 to 23.6.2013	30,000,000	–	–	–	30,000,000	∂
Mr. Luo Ning	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	–	–	–	3,333,334	∂
Mr. Sun Yalei	24.6.2003	0.3220	24.6.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	3,333,333	–	–	–	3,333,333	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	3,333,334	–	–	–	3,333,334	∂
Mr. Zhang Lian Yang	24.6.2003	0.3220	24.6.2004 to 23.6.2013	5,000,000	–	–	–	5,000,000	∂
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	5,000,000	–	–	–	5,000,000	∂
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	5,000,000	–	–	–	5,000,000	∂
				225,000,000	–	–	–	225,000,000	

SHARE OPTION AND WARRANTS *(Continued)*

	Date of grant	Exercise price HK$	Exercise period	Number of options: At 1st April 2006	Granted during the year	Lapsed during the year	Exercised during the year	At 31st March 2007	Term of new scheme to mention
Employees	13.7.2000	0.9900	13.7.2002 to 27.5.2008	200,000	–	–	–	200,000	Δ
	22.9.2004	1.2300	22.9.2006 to 22.10.2006	1,800,000	–	(1,800,000)	–	–	∂*
	22.9.2004	1.2300	22.9.2007 to 22.10.2007	1,800,000	–	(1,200,000)	–	600,000	∂*
	1.2.2005	2.255	5.1.2006 to 31.1.2015	1,000,000	–	–	–	1,000,000	∂*
	1.2.2005	2.255	5.1.2007 to 31.1.2015	1,000,000	–	–	–	1,000,000	∂*
	1.2.2005	2.255	5.1.2008 to 31.1.2015	1,000,000	–	–	–	1,000,000	∂*
	2.3.2005	2.525	2.9.2005 to 1.3.2015	700,000	–	(333,334)	–	366,666	∂
	2.3.2005	2.525	2.9.2006 to 1.3.2015	700,000	–	(333,333)	–	366,667	∂
	2.3.2005	2.525	2.3.2008 to 1.3.2015	700,000	–	(333,333)	–	366,667	∂
	23.3.2005	3.175	23.3.2006 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2007 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2008 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2009 to 22.3.2015	200,000	–	–	–	200,000	∂
	23.3.2005	3.175	23.3.2010 to 22.3.2015	200,000	–	–	–	200,000	∂
	1.6.2005	2.175	1.6.2006 to 30.6.2006	2,333,333	–	(2,333,333)	–	–	∂
	1.6.2005	2.175	1.6.2007 to 30.6.2007	2,333,333	–	–	–	2,333,333	∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	2,333,334	–	–	–	2,333,334	∂
	1.6.2005	2.175	1.6.2006 to 30.6.2006	600,000	–	(600,000)	–	–	∂
	1.6.2005	2.175	1.6.2007 to 30.6.2007	600,000	–	(400,000)	–	200,000	∂
	1.6.2005	2.175	1.6.2008 to 30.6.2008	600,000	–	(400,000)	–	200,000	∂
	1.6.2005	2.175	1.6.2009 to 30.6.2009	600,000	–	(400,000)	–	200,000	∂
	1.6.2005	2.175	1.6.2010 to 30.6.2010	600,000	–	(400,000)	–	200,000	∂
				19,900,000	–	(8,533,333)	–	11,366,667	
				244,900,000	–	(8,533,333)	–	236,366,667	

Δ Options under Old Scheme

∂ Options under New Scheme

* The exercise of options and the number of share of the Company ("Share") to be issued upon exercise of such options are subject to achievement of certain targeted turnover of Beijing Honglian 95 Information Industries Company Limited, a jointly controlled entity of the Group.

SHARE OPTION AND WARRANTS *(Continued)*

The share options granted are recognised in the consolidated financial statements in accordance with the accounting policy of the Group as set out in note 3 to the consolidated financial statements.

Except for the share option scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company nor their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution at the balance sheet date.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries or its holding companies were a party and in which a Director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at 31st March 2007, the Directors and their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 352 of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules:

	Number of shares/underlying shares held		
	Shares (Corporate interest)	**Shares (Personal interest)[(2)]**	**Aggregate interests**
Mr. Wang Jun	–	30,000,000	30,000,000
Ms. Chen Xiao Ying	784,937,030[(1)]	160,000,000	944,937,030
Mr. Luo Ning	–	10,000,000	10,000,000
Mr. Sun Yalei	–	10,000,000	10,000,000
Mr. Zhang Lian Yang	–	15,000,000	15,000,000
	784,937,030	225,000,000	1,009,937,030

DIRECTORS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES *(Continued)*

(1) Pollon Internet Corporation, a company wholly-owned by Ms. Chen Xiao Ying, owns 99.5% interest in 21CN Corporation. Uni-Tech International Group Limited, a wholly owned subsidiary of 21CN Corporation, holds 784,937,030 shares in the Company. Accordingly, Ms. Chen Xiao Ying is interested in the shares held by Uni-Tech International Group Limited.

(2) Particulars of interests of the Directors in the share options of the Company are set out in the section headed "Share Option and Warrants" above.

Save as disclosed above, none of Directors nor any chief executive of the Company has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register maintained under section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at 31st March 2007, the following parties (other than a Director or chief executive of the Company) had interests or short positions in the shares of underlying shares of the Company would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

Name	Nature of interest	Number of shares held	Total interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited *(note (a))*	Beneficial owner	784,937,030	784,937,030	23.52%
21CN Corporation *(note (a))*	Interest of controlled corporation	784,937,030	784,937,030	23.52%
Pollon Internet Corporation *(note (a))*	Interest of controlled corporation	784,937,030	784,937,030	23.52%
CITIC Group ("CITIC") *(note (b))*	Interest of controlled corporation	807,998,000	807,998,000	24.21%

(a) Uni-Tech International Group Limited is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 99.5% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying, Executive Vice Chairman of the Company.

(b) Road Shine Developments Limited, Goldreward.com Ltd and Perfect Deed Co. Ltd. holds 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES *(Continued)*

Save as disclosed above, there are no other interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of SFO.

CONNECTED TRANSACTIONS

Guangdong Grand Cycle Technology Company Limited ("Grand Cycle") (an indirectly wholly-owned subsidiary of the Company) and Beijing Honglian 95 Information Industries Company Limited ("HL95") (51% and 49% equity interests of which being beneficially owned by 中信國安信息產業股份有限公司 (CITIC Guoan), a company incorporated in the PRC of which CITIC Group is a substantial shareholder with 40.18% effective equity interests in it, and the Company respectively) entered into a service agreement on 8 August 2005 for the provision of software development and system integration service by Grand Cycle to HL95. Grand Cycle will also provide (i) technical guidance and training service to HL95 regarding the application of the system installed for 12 months commencing from the date of the service agreement and (ii) a 12-month free repair and maintenance service to it upon the commencement of the operation of the installed system pursuant to the Service Agreement. The system installed will be used for the provision of finance related information to the customers of HL95.

Grand Cycle agrees to provide HL95 with software development and system integration service at a fixed fee of RMB9,130,000 (equivalent to approximately HK$8,779,000) being payable by HL95 to Grand Cycle in the following manner:

- 10% of the service fee or RMB913,000 (equivalent to approximately HK$878,000) being payable within five days after the signing of the Service Agreement;

- 30% of the service fee or RMB2,739,000 (equivalent to approximately HK$2,634,000) being payable upon receipt of software by HL95 and software development personnel of Grand Cycle commencing on-site system installation at HL95;

- 50% of the service fee or RMB4,565,000 (equivalent to approximately HK$4,389,000) being payable within five days after satisfactory testing of the installed system; and

- the balance of 10% or RMB913,000 (equivalent to approximately HK$878,000) being payable one month after the free repair and maintenance service period.

In addition to the above, during the year, the Group entered into certain connected transactions, as defined in Chapter 14A of the Listing Rules of the Stock Exchange, which are also related party transactions, references to which are set out in note 35 to the consolidated financial statements.

CONNECTED TRANSACTIONS *(Continued)*

Regarding the connected transactions mentioned above, the independent non-executive Directors have received and confirmed that all such transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant master agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits schemes are set out in note 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchase during the year attributable to the Group's five largest suppliers was 16% of the total purchases of the Group, of which 5% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 10% of the total turnover of the Group, of which 3% was made to the largest customer.

None of the Directors, their associates or any shareholders who to the knowledge of the Directors owns more than 5% of the share capital of the Company has an interest in the suppliers or customers disclosed above.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company have any beneficial interest in other businesses which constitute a competing business to the Group.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 30 to the consolidated financial statements.

LITIGATION

Details of litigation are set out in note 36 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float of not less than 25% throughout the year.

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 28 to 32 of this annual report of the Company for details of its compliance with the Code on Corporate Governance Practices.

AUDIT COMMITTEE

The Group's annual report for the year ended 31st March 2007 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 28 to 32 of this annual report.

AUDITOR

During the year ended 31st March 2006, PricewaterhouseCoopers resigned as auditors of the Company and Deloitte Touche Tohmatsu were appointed as auditor of the Company.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Chen Xiao Ying
EXECUTIVE VICE CHAIRMAN

Hong Kong, 20th July 2007

THE BIOGRAPHICAL INFORMATION OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. WANG Jun, aged 66, was appointed as the Chairman of the Company in March 2005 Mr. Wang is responsible for determining overall high level corporate strategies for the Group. Mr. Wang graduated from Harbin Engineering Institute in the PRC. Mr Wang recently retired as the Chairman of CITIC Group in Beijing. Mr Wang continues to be the Chairman of Poly (Hong Kong) Investment Limited, the Chairman and Executive Director of Goldbond Group Holdings Limited and Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Ms. CHEN Xiao Ying, aged 44, is the Executive Vice Chairman of the Company. Ms. Chen is responsible for setting overall corporate strategies and their implementation for the Group. She has been Chairman of the Pollon Group, a private investment group, since its inception in 1989, and which invests in power plants, telecommunications and property development in the PRC. Ms. Chen has been a Member of the Chinese National People's Political Consultative Committee since 1998 and a Permanent Honorary President of Friends of Hong Kong Association Limited since 1999. Ms. Chen has served as Director since May 2000.

Mr. LUO Ning, aged 48, is the Vice Chairman of the Company. He is an Assistant President of CITIC Group. He is also a Director of CITIC Information Leadership Group under CITIC Group. Mr. Luo has over 16 years' experience in the telecommunication business. Mr. Luo graduated from the PLA Communication & Command Institute. Mr. Luo has served as Director since September 2002.

Mr. SUN Yalei, aged 39, is an Assistant President of CITIC Group, Vice Chairman and President of CITIC Guoan Group. Mr. Sun has extensive experience in financial and assets management. Mr. Sun graduated from the Renmin University of China. Mr. Sun has served as Director since September 2002.

Mr. ZHANG Lian Yang, aged 62, has extensive experience in the property investment and development business, trading and information technology-related business in the PRC for over 20 years. Mr. Zhang has served as Director since September 2002.

Ms. XIA Guilan, aged 44, is currently the Vice Chairman of CITIC Guoan Group and CITIC Guoan Information Industries Company Limited. Ms. Xia has served as Director since August 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. HUI Ho Ming, Herbert, JP, aged 49, is appointed as a Member of the Committee on Economic Development and Economic Cooperation with the Mainland Commission on Strategic Development. He is the Chairman and Chief Executive Officer of China Supply Company Limited, Chairman of 1Chinalink Investment Co., Limited and Vice Chairman of Ocean Grand Group of Companies. Dr. Hui has extensive securities regulatory and corporate finance commercial experience. Dr. Hui holds a number of public position, he is a Vice Chairman of Hong Kong Council for Academic Accreditation, a Director of the Hong Kong Science and Technology Parks Corporation, a member, Board of Directors of Automotive Parts and Accessory Systems R&D Centre. He was appointed a Justice of the Peace in Hong Kong in 2004. Dr. Hui has served as independent non-executive Director since November 2005.

Mr. ZHANG Jian Ming, aged 46, is currently the executive partner, managing director and attorney-at-law of a law firm in Beijing. Mr. Zhang has served as independent non-executive Director since August 2003.

Mr. LIU Hongru, aged 76, was appointed as independent non-executive Director in September 2004. Mr. Liu graduated from the University of Moscow in 1959 with an associate doctorate's degree. Mr. Liu is currently the chairman of The Chinese Financial Education Development Foundation and Capital Market Research Institute, an independent non-executive director of Petrochina Company Limited and Minmetals Resources Limited, and a non-executive director of Concepta Investments Limited. He is also a professor at the Postgraduate School of the People's Bank of China, Peking University, Tsinghua University and the City University of Hong Kong. He was formerly a vice governor of the Agricultural Bank of China and the People's Bank of China, a deputy director of the State Economic Restructuring Committee, and the first chairman of the China Securities Regulatory Commission.

COMPANY SECRETARY

Mr. YEE Foo Hei, aged 43, is an associate member of The Hong Kong Institute of Company Secretaries and a fellow member of The Association of Chartered Certified Accountants in the U.K. He holds a Bachelor Degree in Law. Mr. Yee has around 20 years' experience in company secretarial both in an international accountancy firm and in commercial sector. Mr. Yee was appointed as Company Secretary in January 2006.

CORPORATE GOVERNANCE

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders. The Stock Exchange introduced the Code on Corporate Governance Practices ("the Code") in November 2004, for replacement and enhancement of the Code of Best Practice in Appendix 14 of the Listing Rules. The Code has become effective from 1 January 2005 and the Group has complied with the code provisions set out in the Code, except for the following deviations:–

(a) 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;

(b) 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 Code;

(c) The Chairman of the board did not attend in the annual general meeting of the Company held on 28th August 2006. The meeting was conducted in a good and proper manner.

THE BOARD

Composition

The Board consists of six executive directors and three independent non-executive directors ("INED(s)"). The names and biographical details of each director are disclosed on pages 26 to 27 of this Annual Report.

Each INED has, pursuant to the guidelines set out in rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. Each INED is subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the bye-laws of the Company. There is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board.

Function

The Board is responsible for managing and direction setting of the Group. For any major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of directors, remuneration policy and other major operational and financial matters, Board approval is required.

The executive directors are responsible for day-to-day management of the Group's operations. These executive directors conduct regular meetings, at which operational issues and financial performance of the Group are evaluated.

THE BOARD *(Continued)*

Function *(Continued)*

The Company views that well-developed and timely reporting systems and internal controls are essential, and the Board plays a key role in the implementation and monitoring of internal financial controls.

The Board held four regular Board meetings at approximately quarterly interval during the year ended 31st March 2007 and additional board meetings would be held when necessary. An agenda and accompanying board papers are sent in full to all directors in a timely manner. Adequate information related to the issues are also supplied for the board and its committee to make decisions which is for the best interests of the Group. The directors who cannot attend in person might through other electronic means of communications to participate. Details of individual attendance of directors are set out in the table below:

Attendance of individual directors at Board meetings during the year ended 31st March 2007
Number of meetings: 4

	Attendants/Number of Meetings
Directors	*Board*
Executive Directors	
Mr. Wang Jun *(Chairman)*	4/4
Ms. Chen Xiao Ying *(Executive Vice-chairman)*	4/4
Mr. Luo Ning *(Vice-chairman)*	4/4
Mr. Sun Yalei	4/4
Mr. Zhang Lian Yang	4/4
Ms. Xia Guilan	4/4
Non-executive Directors	
Dr. Hui Ho Ming, Herbert, JP	4/4
Mr. Liu Hongru	4/4
Mr. Zhang Jian Ming	4/4

Board Committees

In order to strengthen the functions of the Board and to enhance its expertise, there are two Board committees, namely the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

THE BOARD *(Continued)*

Remuneration Committee

The Board has established a Remuneration Committee which comprises three independent Non-Executive Directors, Mr. Liu Hongru, Mr. Zhang Jian Ming and Dr. Hui Ho Ming, Herbert, JP. It is chaired by Mr. Liu Hongru. The terms of reference of the Remuneration Committee have been reviewed with reference to the Code.

The Remuneration Committee's responsibilities are to review and consider Company's policy for remuneration of directors and senior management, to determine remuneration packages of executive directors including benefits in kind, pension rights and compensation payments, to recommend to the Board remuneration of non-executive directors and to assess the performance of executive directors.

The Remuneration Committee held one meeting for the year ended 31st March 2007. Details of individual attendance of its members are set out in the table below:

Number of meetings	**1**
Mr. Liu Hongru	1/1
Dr. Hui Ho Ming, Herbert, JP	1/1
Mr. Zhang Jian Ming	1/1

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors with Dr. Hui Ho Ming, Herbert, JP as the Chairman of the Committee. The main duties of the Audit Committee include:

(a) to consider the appointment of the external auditor and any questions in relation to its resignation or dismissal;

(b) to discuss with the external auditor the nature and scope of the audit;

(c) to review the half-year and annual financial statements before submission to the Board;

(d) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss;

(e) to review the external auditors' management letter and management's response;

(f) to review the Company's statement on internal control systems prior to endorsement by the Board;

(g) to review the internal audit function, and ensure coordination with external auditors, and ensure the internal audit function has adequate resources and appropriate standing within the company; and

(h) to consider the major findings of internal investigations and management's response.

THE BOARD *(Continued)*

Audit Committee *(Continued)*

The Audit Committee held two meetings for the financial year ended 31st March 2007.

Details of individual attendance of its members are set out in the table below:

Number of meetings	**2**
INEDs	
Dr. Hui Ho Ming, Herbert, JP	2/2
Mr. Liu Hongru	2/2
Mr. Zhang Jian Ming	2/2

Other Information

The Board has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year ended 31st March 2007.

AUDITORS' REMUNERATION

The remuneration paid to Deloitte Touche Tohmatsu for audit and non-audit services for the year ended 31st March 2007 amounted to HK$1,600,000 and HK$88,000 respectively.

INTERNAL CONTROL

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the applicable laws and regulations.

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the audit committee of the Board, the Board reviews the effectiveness of these systems.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in all circulars accompanying notice convening general meetings and has been read out by the chairman at general meetings.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the financial statements of the Group (the "Financial Statements"). The statement of the Company's auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on page 33.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF CITIC 21CN COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CITIC 21CN Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 79, which comprise the consolidated balance sheet as at 31st March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20th July 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2007

	NOTES	2007 HK$'000	2006 HK$'000
Turnover	6	**286,057**	403,545
Cost of sales and services		**(221,127)**	(219,482)
Gross profit		**64,930**	184,063
Other income	8	**27,098**	7,492
Change in fair value of convertible bonds		**(19,807)**	(1,420)
Convertible bonds issue expenses		**–**	(26,480)
Distribution costs		**(15)**	(13)
Administrative expenses		**(140,415)**	(153,857)
Share of profit of an associate		**6,718**	9,725
Finance costs	9	**(721)**	(123)
(Loss) profit before taxation	10	**(62,212)**	19,387
Taxation	11	**(2,353)**	(13,100)
(Loss) profit for the year		**(64,565)**	6,287
Attributable to:			
Equity holders of the Company		**(60,998)**	9,153
Minority interests		**(3,567)**	(2,866)
		(64,565)	6,287
		HK cents	HK cents
(Loss) earnings per share	14		
Basic		**(1.84)**	0.28
Diluted		**N/A**	0.27

CONSOLIDATED BALANCE SHEET

At 31st March 2007

	NOTES	**2007 HK$'000**	2006 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**98,691**	69,698
Intangible assets	*16*	**72,013**	–
Interest in an associate	*17*	**93,276**	86,387
Loan receivable	*18*	**–**	25,664
Available-for-sale investments	*19*	**7,173**	7,737
		271,153	189,486
Current assets			
Inventories	*20*	**1,110**	1,532
Amounts due from customers for contract work	*21*	**17,974**	30,468
Debtors and prepayments	*22*	**157,293**	192,744
Taxation recoverable		**522**	–
Investments held for trading	*23*	**15,395**	–
Loan receivable	*18*	**26,306**	–
Bank balances and cash	*24*	**453,984**	592,978
		672,584	817,722
Current liabilities			
Creditors and accruals	*25*	**68,692**	97,633
Taxation payable		**–**	8,957
Short-term bank loans	*26*	**12,373**	11,760
		81,065	118,350
Net current assets		**591,519**	699,372
Total assets less current liabilities		**862,672**	888,858
Non-current liability			
Convertible bonds	*27*	**543,765**	547,420
		318,907	341,438
Capital and reserves			
Share capital	*28*	**33,370**	33,086
Reserves	*29*	**284,870**	304,679
Equity attributable to equity holders of the Company		**318,240**	337,765
Minority interests		**667**	3,673
Total equity		**318,907**	341,438

The financial statements on pages 34 to 79 were approved and authorised for issue by the Board of Directors on 20th July 2007 and are signed on its behalf by:

Chen Xiao Ying
DIRECTOR

Zhang Lian Yang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2007

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 29)	Contributed surplus HK$'000 (Note 29)	Translation reserve HK$'000	Share options reserve HK$'000	General reserve HK$'000 (Note 29)	Accumu-lated losses HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April 2005	33,044	416,190	19,215	78,108	1,094	11,931	9,136	(259,931)	308,787	7,294	316,081
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	2,527	–	–	–	2,527	(755)	1,772
Profit (loss) for the year	–	–	–	–	–	–	–	9,153	9,153	(2,866)	6,287
Total recognised income and expenses for the year	–	–	–	–	2,527	–	–	9,153	11,680	(3,621)	8,059
Recognition of equity-settled share based payments	–	–	–	–	–	16,046	–	–	16,046	–	16,046
Lapse of share options	–	–	–	–	–	(3,901)	–	3,901	–	–	–
Transfer	–	–	–	–	–	–	2,715	(2,715)	–	–	–
Issue of shares on exercise of warrants	–	125	–	–	–	–	–	–	125	–	125
Exercise of share options	42	1,085	–	–	–	–	–	–	1,127	–	1,127
Transfer of share option reserve on exercise of share options	–	155	–	–	–	(155)	–	–	–	–	–
	42	1,365	–	–	–	11,990	2,715	1,186	17,298	–	17,298
At 31st March 2006	33,086	417,555	19,215	78,108	3,621	23,921	11,851	(249,592)	337,765	3,673	341,438
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	16,739	–	–	–	16,739	561	17,300
Loss for the year	–	–	–	–	–	–	–	(60,998)	(60,998)	(3,567)	(64,565)
Total recognised income and expenses for the year	–	–	–	–	16,739	–	–	(60,998)	(44,259)	(3,006)	(47,265)
Recognition of equity-settled share based payments	–	–	–	–	–	1,272	–	–	1,272	–	1,272
Lapse of share options	–	–	–	–	–	(1,948)	–	1,948	–	–	–
Issue of shares on conversion of convertible bonds	284	23,178	–	–	–	–	–	–	23,462	–	23,462
	284	23,178	–	–	–	(676)	–	1,948	24,734	–	24,734
At 31st March 2007	**33,370**	**440,733**	**19,215**	**78,108**	**20,360**	**23,245**	**11,851**	**(308,642)**	**318,240**	**667**	**318,907**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2007

	2007 HK$'000	2006 HK$'000
Operating activities		
(Loss) profit before taxation	**(62,212)**	19,387
Adjustments for:		
Interest income	**(22,749)**	(7,425)
Imputed interest income on loan receivable	**(642)**	–
Change in fair value of convertible bonds	**19,807**	1,420
Change in fair value of held for trading investments	**(3,236)**	–
Finance costs	**721**	123
Effective interest expense of loan receivable	**–**	1,246
Share of profit of an associate	**(6,718)**	(9,725)
Depreciation	**11,328**	10,663
Amortisation of intangible assets	**912**	–
Loss on disposal of property, plant and equipment	**1,489**	832
Share option expense	**1,272**	16,046
Convertible bonds issue expenses	**–**	26,480
Operating cash flows before movements in working capital	**(60,028)**	59,047
Decrease (increase) in inventories	**489**	(829)
Increase in held for trading investments	**(12,159)**	–
Decrease (increase) in amounts due from customers for contract work	**13,732**	(27,217)
Decrease (increase) in debtors and prepayments	**44,364**	(26,601)
Decrease in creditors and accruals	**(33,184)**	(14,881)
Cash used in operations	**(46,786)**	(10,481)
Interest received	**22,749**	7,425
Taxation paid	**(11,832)**	(7,069)
Net cash used in operating activities	**(35,869)**	(10,125)
Investing activities		
Purchase of intangible assets	**(72,925)**	–
Purchase of property, plant and equipment	**(38,002)**	(26,225)
Loan advanced	**–**	(26,910)
Proceeds from disposal of property, plant and equipment	**–**	2,841
Proceeds from disposal of available-for-sale investments	**564**	–
Increase in restricted bank deposits	**–**	1,057
Net cash used in investing activities	**(110,363)**	(49,237)

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

For the year ended 31st March 2007

	2007 HK$'000	2006 HK$'000
Financing activities		
Repayment of short-term loans	**(21,719)**	(22,772)
Interest paid	**(721)**	(123)
New bank loans raised	**21,719**	22,814
Proceeds from issue of convertible bonds	**–**	546,000
Dividends paid by a jointly controlled entity to its former shareholders	**–**	(5,791)
Convertible bonds issue expenses	**–**	(26,480)
Net proceeds from issue of shares and warrants	**–**	1,252
Net cash (used in) from financing activities	**(721)**	514,900
(Decrease) increase in cash and cash equivalents	**(146,953)**	455,538
Cash and cash equivalents at beginning of the year	**592,978**	136,266
Effect of foreign exchange rate changes	**7,959**	1,174
Cash and cash equivalents at end of the year, representing bank balances and cash	**453,984**	592,978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March 2007

1. GENERAL

CITIC 21CN Company Limited (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 consolidated 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 principal activities of the Group comprise telecommunication and information value-added services, the provision of Product Identification, Authentication and Tracking System, system integration and software development. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are effective for accounting periods beginning on or after 1st December 2005, 1st January 2006 or 1st March 2006. The application of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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 explained in the accounting policies set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associate *(Continued)*

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in the associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses in recognised.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of sales related taxes.

Revenue from telecommunications/information value-added services and operation of an exclusive platform for product identification, authentication, tracking system is recognised when the services are provided.

Service income from system integration and software development contracts (see policy below) is recognised on the percentage of completion method by reference to the value of work carried out during the year.

Sales of merchandise is recognised when the goods are delivered, the risks and rewards of ownership and legal title has been passed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the rights to receive payment have been established.

System integration and software development contracts

When the outcome of a contract for system integration and software development can be estimated reliably, contract costs are charged to the consolidated income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs each for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production, rental or administrative purposes. They are carried at cost, less any recognised impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets include investments held for trading, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Investments held for trading

At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan receivable, amounts due from customers for contract work, trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities include other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables and bank loans are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds at fair value through profit or loss

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds with embedded derivatives as a whole are designated as financial liabilities at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bond designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

Share options granted before 7th November 2002 or granted after 7th November 2002 and vested before 1st April 2005

The financial impact of share options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to employees of the Company (Continued)

Share options granted after 7th November 2002 and vested after 1st April 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Retirement benefit cost

Payments to the state-managed retirement benefit scheme or the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Income taxes

As at 31st March 2007, no deferred tax asset was recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$75,166,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such a recognition takes place.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of tangible and intangible assets on product identification, authentication, tracking system business ("PIATS")

Determining whether assets are impaired requires an estimation of the future cash flows expected to arise from the PIATS business and a suitable discount rate in order to calculate present values. Since the PIATS business is in commencement stage, significant judgement is required in determining the future cash flows expected to arise from the PIATS business. The directors believe there is great potential for PIATS. The directors of the Company are of the view as there are no other companies that provide a similar service and has such strong government support. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include loan receivables, investments held for trading, amounts due from customers for contract work, trade and other receivables, bank balances and cash, trade and other payables and short-term bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at 31st March 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk in relation to loan receivables and debtors, the management of the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risks relating to loan receivable are closely monitored on a ongoing basis by the management. At 31st March 2007, the Group has no significant concentrations of credit risk on loan receivable and debtors.

The credit risk in relation to bank balances and cash is limited because the majority of the counterparties are financial institutions and banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation in the People's Republic of China (the "PRC").

The Group has no significant concentration of credit risk on trade and other receivable and amounts due from customers for contract work, with exposure spread over a number of counterparties and customers.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to fixed-rate bank deposits (see note 24). The Group currently does not have hedging policy in respect of the interest rate risk. However, management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (see note 26). The Group currently does not have hedging policy in respect of the interest rate risk. However, management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. TURNOVER

	2007	2006
	HK$'000	HK$'000
An analysis of the Group's turnover is as follows:		
Telecommunications/information value-added services	**274,657**	297,588
System integration and software development	**10,489**	100,808
Product identification, authentication, tracking system business	**911**	5,149
	286,057	403,545

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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 product identification, authentication, tracking system, 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
Product identification, authentication, tracking system business	–	operation of an exclusive platform for product identification, authentication, tracking system ("PIATS")
System integration and software development	–	provision of system integration and software development

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Business segments for the year are as follows:

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Total HK$'000
Year ended 31st March 2007				
Turnover				
External sales	274,657	911	10,489	286,057
Segment results	(2,339)	(28,071)	(5,529)	(35,939)
Other income				27,098
Change in fair value of convertible bonds				(19,807)
Share of profit of an associate				6,718
Finance costs				(721)
Unallocated corporate expenses				(39,561)
Loss before taxation				(62,212)
Taxation				(2,353)
Loss for the year				(64,565)
ASSETS				
Segment assets	120,787	121,015	86,841	328,643
Interest in an associate				93,276
Unallocated corporate assets				521,818
Consolidated total assets				943,737
LIABILITIES				
Segment liabilities	31,694	13,766	15,500	60,960
Unallocated corporate liabilities				563,870
Consolidated total liabilities				624,830

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Telecom-munications/ information value-added services HK$'000	**PIATS business HK$'000**	**System integration and software development HK$'000**	**Others HK$'000**	**Total HK$'000**
OTHER INFORMATION					
Capital additions	**6,168**	**31,809**	**–**	**25**	**38,002**
Addition of intangible assets	**–**	**72,925**	**–**	**–**	**72,925**
Depreciation	**7,538**	**1,642**	**153**	**1,995**	**11,328**
Amortisation of intangible assets	**–**	**912**	**–**	**–**	**912**

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Eliminations HK$'000	Total HK$'000
Year ended 31st March 2006					
Turnover					
External sales	297,588	5,149	100,808	–	403,545
Inter-segment sales*	–	–	17,714	(17,714)	–
Total	297,588	5,149	118,522	(17,714)	403,545
Segment results	32,909	(2,753)	64,753	(9,356)	85,553
Other income					7,492
Change in fair value of convertible bonds					(1,420)
Convertible bond issue expenses					(26,480)
Share of profit of an associate					9,725
Finance costs					(123)
Unallocated corporate expenses					(55,360)
Profit before taxation					19,387
Taxation					(13,100)
Profit for the year					6,287

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Telecom-munications/ information value-added services HK$'000	PIATS business HK$'000	System integration and software development HK$'000	Eliminations HK$'000	Total HK$'000
ASSETS					
Segment assets	134,580	25,296	121,565	–	281,441
Interest in an associate					86,387
Unallocated corporate assets					639,380
Consolidated total assets					1,007,208
LIABILITIES					
Segment liabilities	47,435	192	44,043	–	91,670
Taxation liabilities					8,957
Unallocated corporate liabilities					565,143
Consolidated total liabilities					665,770

* *Inter-segment sales are charged at prevailing market prices.*

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

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

8. OTHER INCOME

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

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on bank loans wholly repayable within five years	**721**	123

10. (LOSS) PROFIT BEFORE TAXATION

	2007 HK$'000	2006 HK$'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*	**2,860**	2,226
Other staff's retirement benefits scheme contributions	**1,503**	3,045
Other staff costs	**60,539**	62,326
Share option expense *(note 30)*	**1,272**	16,046
Total staff costs	**66,174**	83,643
Amortisation of intangible assets (included in cost of sales and services)	**912**	–
Auditor's remuneration	**2,375**	2,576
Effective interest expense of loan receivable *(note 18)*	**–**	1,246
Cost of inventories recognised as an expense	**7,210**	34,907
Depreciation	**11,328**	10,663
Loss on disposal of property, plant and equipment	**1,489**	832
Net exchange loss	**1,070**	1,019
Operating lease rentals in respect of buildings	**13,107**	10,589
Share of tax of an associate (included in share of profit of an associate)	**445**	108

11. TAXATION

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

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

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

Pursuant to the relevant laws and regulations in the PRC, a jointly controlled entity and a subsidiary are entitled to exemption from PRC Enterprise Income Tax for the two years ended starting from 31st March 2006 and a 50% relief for the subsequent three years. In addition, a jointly controlled entity is awarded as the Advanced-Technology Enterprise Certificate and entitled to a concessionary rate of income tax at 15%.

11. TAXATION *(Continued)*

The charge for the year can be reconciled to the (loss) profit before taxation as follows:

	2007	2006
	HK$'000	HK$'000
(Loss) profit before taxation attributable to the Company and its subsidiaries	**(62,212)**	19,387
Tax at the rate of 33% (2006: 33%)	**(20,530)**	6,397
Tax effect of income that is not taxable for the tax purposes	**(7,295)**	(1,931)
Tax effect of share of profit of an associate	**(2,217)**	(3,209)
Tax effect of expenses that are not deductible for tax purposes	**30,981**	12,515
Tax effect of tax losses not recognised	**–**	6,680
Utilisation of tax losses previously not recognised	**(247)**	–
Effect of different tax rates of subsidiaries operating in Hong Kong, which incurred tax losses during the year	**4,678**	10,992
Effect of exemption granted to PRC subsidiaries and jointly controlled entities	**–**	(7,943)
Income tax at concessionary rate	**(2,058)**	(9,831)
Overprovision in prior years	**(819)**	–
Others	**(140)**	(570)
Taxation attributable to the Company and its subsidiaries for the year	**2,353**	13,100

At the balance sheet date, the Group has unused tax losses of approximately HK$75,166,000 (2006: HK$76,577,000) available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit stream. The tax losses can be carried forward indefinitely.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2006: 12) directors were as follows:

	Mr. Wang Jun HK$'000	Ms. Chen Xiao Ying HK$'000	Mr. Luo Ning HK$'000	Mr. Sun Yalei HK$'000	Mr. Zhang Lian Yang HK$'000	Ms. Xia Guilan HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	2007 Total HK$'000
Fees	1,000	-	-	-	-	-	360	-	200	1,560
Other emoluments										
– salaries and other benefits	-	1,288	-	-	-	-	-	-	-	1,288
– contributions to retirement benefits schemes	-	12	-	-	-	-	-	-	-	12
Total emoluments	1,000	1,300	-	-	-	-	360	-	200	2,860
Share option expense	-	-	-	-	-	-	-	-	-	-

	Mr. Wang Jun HK$'000	Ms. Chen Xiao Ying HK$'000	Mr. Luo Ning HK$'000	Mr. Sun Yalei HK$'000	Mr. Zhang Lian Yang HK$'000	Mr. Yin Yiping HK$'000	Ms. Xia Guilan HK$'000	Dr. Liu Xiaoping HK$'000	Dr. Hui Ho Ming, Herbert, JP HK$'000	Mr. Zhang Jian Ming HK$'000	Mr. Liu Hongru HK$'000	Mr. Tsui Yiu Wa, Alec HK$'000	2006 Total HK$'000
Fees	–	–	–	–	–	–	–	–	135	–	200	123	458
Other emoluments													
– salaries and other benefits	–	1,288	–	–	–	–	–	462	–	–	–	–	1,750
– contributions to retirement benefits schemes	–	12	–	–	–	–	–	6	–	–	–	–	18
Total emoluments	–	1,300	–	–	–	–	–	468	135	–	200	123	2,226
Share option expense	11,527	701	44	44	59	–	–	–	–	–	–	–	12,375

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

13. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2006: two) directors of the Company, whose emoluments are included in note 12 above. The aggregate emoluments of the remaining three (2006: three) highest paid individuals are as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and allowances	**3,614**	1,884
Retirement benefits scheme contributions	**24**	33
	3,638	1,917

The emoluments of the individuals fall within the following band:

	Number of individuals	
	2007	2006
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
	3	3

14. (LOSS) EARNINGS PER SHARE

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

	2007	2006
	HK$'000	HK$'000
(Loss) earnings for the purposes of basic and diluted earnings per share	**(60,998)**	9,153

Number of shares	**2007**	2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,310,874,619**	3,307,490,057
Effect of dilutive potential ordinary shares:		
Share options		137,911,873
Warrants		15,169
Convertible bonds		–
Weighted average number of ordinary shares for the purposes of diluted earnings per share		3,445,417,099

The diluted loss per share for the year ended 31st March 2007 was not presented as the exercise of the share options and warrants outstanding and the conversion of the Company's outstanding convertible bonds would result in a decrease in loss per share.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements, furniture and equipment	Computer and special computer equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1st April 2005	1,239	7,835	72,245	7,138	12,615	101,072
Currency realignment	21	80	1,115	266	222	1,704
Additions	–	6,341	5,378	629	13,877	26,225
Disposals	–	(30)	(4,693)	(90)	–	(4,813)
Transfers	–	–	4,708	–	(4,708)	–
At 31st March 2006	1,260	14,226	78,753	7,943	22,006	124,188
Currency realignment	79	354	4,654	225	1,449	6,761
Additions	488	878	25,374	–	11,262	38,002
Disposals	–	–	(2,661)	–	–	(2,661)
Transfers	–	–	13,952	–	(13,952)	–
At 31st March 2007	**1,827**	**15,458**	**120,072**	**8,168**	**20,765**	**166,290**
DEPRECIATION						
At 1st April 2005	233	2,543	37,023	4,086	–	43,885
Currency realignment	5	48	807	222	–	1,082
Provided for the year	41	2,359	7,076	1,187	–	10,663
Eliminated on disposals	–	(21)	(1,084)	(35)	–	(1,140)
At 31st March 2006	279	4,929	43,822	5,460	–	54,490
Currency realignment	26	194	2,488	245	–	2,953
Provided for the year	434	2,641	7,528	725	–	11,328
Eliminated on disposals	–	–	(1,172)	–	–	(1,172)
At 31st March 2007	**739**	**7,764**	**52,666**	**6,430**	**–**	**67,599**
CARRYING VALUES						
At 31st March 2007	**1,088**	**7,694**	**67,406**	**1,738**	**20,765**	**98,691**
At 31st March 2006	981	9,297	34,931	2,483	22,006	69,698

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Items of property, plant and equipment are depreciated on a straight line basis, over their estimated useful lives as follows:

Buildings	50 years or over the unexpired period of leases, whichever is shorter
Leasehold improvements	5 years or over the unexpired period of leases, whichever is shorter
Furniture and equipment	5 to 20 years
Computer and special computer equipment	2 to 10 years
Motor vehicles	5 to 10 years

16. INTANGIBLE ASSETS

	License rights
	HK$'000
COST	
Acquired during the year and at 31st March 2007	72,925
AMORTISATION	
Provided for the year and at 31st March 2007	(912)
CARRYING VALUES	
At 31st March 2007	72,013

The Group's license rights were 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.

17. INTEREST IN AN ASSOCIATE

	2007	2006
	HK$'000	HK$'000
Cost of investment in unlisted shares	**57,345**	57,345
Contribution from a shareholder	**19,215**	19,215
Share of post-acquisition profit	**16,443**	9,725
Currency realignment	**273**	102
	93,276	86,387

Name of the company	**Place of registration and operation**	**Attributable interest held by the Group**	**Principal activity**
Dongfang Customs Technology Company Limited ("Dongfang Customs") ("東方口岸科技有限公司")	PRC	30%	Operation of a platform for electronic customs processing

The summarised financial information in respect of the associate is set out below:

	2007	2006
	HK$'000	HK$'000
Total assets	**424,409**	381,717
Total liabilities	**(113,489)**	(93,760)
Net assets	**310,920**	287,957
Group's share of net assets of the associate	**93,276**	86,387
Turnover	**114,890**	79,783
Profit for the year	**22,394**	32,416
Group's share of profit of associate for the year	**6,718**	9,725

18. 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 the PIATS business.

As at 31st March 2007, the fair value of the Group's share of the loan receivable was HK$26,306,000 (2006: HK$25,664,000), determined based on the present value of the estimated future cash flows discounted using effective interest rate of 2.5%.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	HK$'000	HK$'000
Unlisted equity securities	**5**	569
Unlisted club debenture	**7,168**	7,168
	7,173	7,737

20. INVENTORIES

	2007	2006
	HK$'000	HK$'000
General merchandise goods	**1,110**	1,532

21. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2007	2006
	HK$'000	HK$'000
Cost incurred plus recognised profits less recognised losses	**73,887**	75,479
Less: Progress billings	**(55,913)**	(45,011)
	17,974	30,468

22. DEBTORS AND PREPAYMENTS

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

Note: Other receivables included an interest free advance to Information Centre of General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") of the PRC, in order for AQSIQ to meet its share of the capital contribution to CCIT amounting to RMB18,000,000 (equivalent to HK$18,180,000). AQSIQ is the joint venture partner in CCIT. The amount is expected to recover within twelve months after the balance sheet date.

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

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

23. INVESTMENTS HELD FOR TRADING

	2007	2006
	HK$'000	HK$'000
Equity securities listed in Hong Kong and United States	**15,395**	–

24. BANK BALANCES AND CASH

	2007 HK$'000	2006 HK$'000
Not restricted	**453,984**	591,921
Restricted	**–**	1,057
	453,984	592,978

Bank balances comprise short-term bank deposits with an original maturity less than three months at interest rates ranged from 3% to 5.26% (2006: 1.73% to 5.16%) during the year.

Included in the bank balances are Renminbi short-term bank deposits of HK$62,402,000 (2006: HK$48,723,000) kept in banks registered in the PRC, and the Renminbi is not a freely convertible currency.

In addition, included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the Company to which they relate:

	2007 HK$'000	2006 HK$'000
United States Dollars	**349,208**	499,965

25. CREDITORS AND ACCRUALS

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

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

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

26. SHORT-TERM BANK LOANS

During the year ended 31st March 2007, Beijing Honglian 95 Information Industries Company Limited ("HL95"), a jointly controlled entity of the Group obtained a bank loan of RMB25,000,000 (equivalent to HK$25,250,000) secured by corporate guarantee from another joint venture partner. The loan carries fixed interest rate at 5.85% per annum and due for payment on May 2007. As at 31st March 2007, the Group share 49% of HL95 of the amount of short-term bank loans of HK$12,373,000 stated in the consolidated balance sheet.

27. CONVERTIBLE BONDS

	HK$'000
As at 1st April 2005	–
Convertible bonds issued during the year	546,000
Change in fair value during the year	1,420
As at 31st March 2006	547,420
Change in fair value during the year	19,807
Converted during the year	(23,462)
As at 31st March 2007	**543,765**

The Company issued US$55 million and US$15 million, zero coupon convertible bonds at a par value of US$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Bonds are unsecured and denominated in United States dollars. The Bonds entitle the holders to convert them into ordinary shares of the Company at any time between 15th February 2006 and 14th December 2010 at an initial conversion price of HK$1.36 per share subject to adjustments. The conversion price will be adjusted downwards on each anniversary date of issue to the ten-day average price immediately prior to the reset date multiplied by 125% if such reset price is less than the conversion price in effect; and adjusted downwards to the ten-day average price immediately prior to the date of the conversion notice delivered by the bondholders multiplied by 94% if such price is less than the conversion price in effect. If the Bonds have not been converted, they will be redeemed at amount as determined by the term of the Bonds as stated in the Company's circular dated 23rd December 2005.

The Company incurred one-off expenses of HK$26,480,000 for the issuance of the Bonds. Such expenses have been recognised in the consolidated income statement for the year ended 31st March 2006.

During the year, US$3,000,000 of the issued Bonds were converted into 28,351,570 shares of HK$0.01 each of the Company at a price range from HK$0.78 to HK$0.93 per share.

27. CONVERTIBLE BONDS *(Continued)*

The functional currency of the Company is Hong Kong dollars and the conversion option of these Bonds is denominated in U.S. dollars. Since the conversion price for the Bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed amount for fixed number of equity instrument. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the Bonds do not contain any equity component and the entire Bonds were designated as "financial liabilities at fair value through profit or loss" which requires the Bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognised in the consolidated income statement. During the year, a loss on change in its fair value of HK$19,807,000 is recognised in the consolidated income statement.

The fair value of the Bonds was calculated using the market value basis. The inputs into the model were as follows:

	31st March 2007	31st March 2006
Stock price	**HK$0.90**	HK$1.13
Expected volatility	**45%**	45%
Stock borrow cost	**5%**	5%
Issuer's credit spread	**10%**	10%
Expected dividend yield	**0%**	0%

28. SHARE CAPITAL

	Number of ordinary shares	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each – at 1st April 2005, 31st March 2006 and 31st March 2007	10,000,000,000	100,000

28. SHARE CAPITAL *(Continued)*

	Number of ordinary shares	HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April 2005	3,304,375,996	33,044
– exercise of share options	4,200,004	42
– exercise of share warrants	52,417	–
– at 31st March 2006	3,308,628,417	33,086
– exercise of share warrants	5	–
– conversion of convertible bonds	28,351,570	284
– at 31st March 2007	**3,336,979,992**	**33,370**

During the year ended 31st March 2005, a rights issue of warrants at an initial subscription price of HK$0.10 per warrant was made in the proportion of one warrant for every six shares held by members on the register of members on 25th February 2005, resulting in 550,697,664 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.01 at an initial exercise price of HK$2.40 per share, payable in cash and subject to adjustment, at any time from 18th March 2005 to 17th September 2006.

During the year, 5 warrants were exercised and the remaining balances of warrants were lapsed. At the balance sheet date, the Company had no warrants outstanding.

During the year, the following changes in the share capital of the Company took place:

(a) During the year, US$3,000,000 of the issued Bonds were converted into 28,351,570 shares of HK$0.01 each of the Company at a price ranged from HK$0.78 to HK$0.93 per share;

(b) During the year, 5 shares of HK$0.01 each were issued at HK$2.40 per share as a result of the exercise of warrants of the Company by warrant holders.

29. RESERVES

Capital reserve represents the deemed capital contribution from a shareholder, CITIC Group, made on the acquisition of the associate, Dongfang Customs, from that shareholder during the year ended 31st March 2005.

Contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the surplus arising from the reduction of share capital. Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. The Company has no distributable reserves at 31st March 2007 and 2006.

General reserve represents the share of PRC statutory reserves from jointly controlled entities. PRC statutory reserves are required to be maintained under the relevant PRC laws applicable to the jointly control entities of the Group.

30. SHARE OPTION

The Company operates share option schemes under which options are granted to individuals as incentive or rewards for their contribution or potential contribution to the Group. At the annual general meeting of the Company held on 30th August 2002, the shareholders of the Company approved and adopted a new share option scheme (the "Scheme") and termination of the existing scheme which was approved at a Special General Meeting of the Company on 28th May 1998. Under the Scheme, the Directors of the Company may at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, ten per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Scheme. All outstanding options granted under the previous scheme remain valid and exercisable in accordance with their terms of issue. Movements in the number of share options during the year are as follows:

Date of grant	Exercisable period	Exercise price	Outstanding at 1.4.2005	Exercised during the year ended 31.3.2006	Outstanding at 31.3.2006 and 31.3.2007
		HK$			
Directors of the Company, including ex-Director:					
13.7.2000	13.1.2001 – 27.5.2008	0.9900	21,000,000	–	21,000,000
13.7.2000	13.7.2001 – 27.5.2008	0.9900	21,000,000	–	21,000,000
13.7.2000	13.7.2002 – 27.5.2008	0.9900	28,000,000	–	28,000,000
24.6.2003	10.9.2004 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	10.3.2005 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	10.9.2005 – 23.6.2013	0.3220	30,000,000	–	30,000,000
24.6.2003	24.6.2004 – 23.6.2013	0.3220	11,666,666	–	11,666,666
24.6.2003	24.12.2004 – 23.6.2013	0.3220	11,666,666	–	11,666,666
24.6.2003	24.6.2005 – 23.6.2013	0.3220	13,333,336	(1,666,668)	11,666,668
23.3.2005	23.3.2006 – 23.3.2015	3.1750	10,000,000	–	10,000,000
23.3.2005	23.3.2007 – 23.3.2015	3.1750	10,000,000	–	10,000,000
23.3.2005	23.3.2008 – 23.3.2015	3.1750	10,000,000	–	10,000,000
			226,666,668	(1,666,668)	225,000,000

– The vesting period ends on the date the exercisable period of the share options begins.

30. SHARE OPTION *(Continued)*

Date of grant	Exercisable period	Exercise price	Outstanding at 1.4.2005	Granted during the year ended 31.3.2006	Exercised during the year ended 31.3.2006	Lapsed during the year ended 31.3.2006	Outstanding at 31.3.2006	Lapsed during the year ended 31.3.2007	Outstanding at 31.3.2007
		HK$							
Employees:									
13.7.2000	13.7.2001 – 27.5.2008	0.9900	60,000	–	(60,000)	–	–	–	–
13.7.2000	13.7.2002 – 27.5.2008	0.9900	340,000	–	(140,000)	–	200,000	–	200,000
20.11.2000	20.11.2001 – 27.5.2008	0.7920	2,400,000	–	–	(2,400,000)	–	–	–
20.11.2000	20.11.2002 – 27.5.2008	0.7920	2,400,000	–	–	(2,400,000)	–	–	–
20.11.2000	20.11.2003 – 27.5.2008	0.7920	3,200,000	–	–	(3,200,000)	–	–	–
24.6.2003	24.6.2004 – 23.6.2013	0.3220	2	–	(2)	–	–	–	–
24.6.2003	24.12.2004 – 23.6.2013	0.3220	2	–	(2)	–	–	–	–
24.6.2003	24.6.2005 – 23.6.2013	0.3220	2,333,332	–	(2,333,332)	–	–	–	–
22.9.2004	22.9.2005 – 22.10.2005	1.2300	4,333,334	–	–	(4,333,334)	–	–	–
22.9.2004	22.9.2006 – 22.10.2006	1.2300	4,333,334	–	–	(2,533,334)	1,800,000	(1,800,000)	–
22.9.2004	22.9.2007 – 22.10.2007	1.2300	4,333,332	–	–	(2,533,332)	1,800,000	(1,200,000)	600,000
1.2.2005	6.1.2006 – 31.1.2015	2.2550	1,333,333	–	–	(1,333,333)	–	–	–
1.2.2005	6.1.2007 – 31.1.2015	2.2550	1,333,333	–	–	(1,333,333)	–	–	–
1.2.2005	6.1.2008 – 31.1.2015	2.2550	1,333,334	–	–	(1,333,334)	–	–	–
1.2.2005	5.1.2006 – 31.1.2015	2.2550	1,000,000	–	–	–	1,000,000	–	1,000,000
1.2.2005	5.1.2007 – 31.1.2015	2.2550	1,000,000	–	–	–	1,000,000	–	1,000,000
1.2.2005	5.1.2008 – 31.1.2015	2.2550	1,000,000	–	–	–	1,000,000	–	1,000,000
2.3.2005	2.9.2005 – 1.3.2015	2.5250	2,766,666	–	–	(2,066,666)	700,000	(333,334)	366,666
2.3.2005	2.9.2006 – 1.3.2015	2.5250	2,766,666	–	–	(2,066,666)	700,000	(333,333)	366,667
2.3.2005	2.3.2008 – 1.3.2015	2.5250	2,766,668	–	–	(2,066,668)	700,000	(333,333)	366,667
2.3.2005	2.3.2006 – 1.3.2015	2.5250	200,000	–	–	(200,000)	–	–	–
2.3.2005	2.3.2007 – 1.3.2015	2.5250	200,000	–	–	(200,000)	–	–	–
2.3.2005	2.3.2008 – 1.3.2015	2.5250	200,000	–	–	(200,000)	–	–	–
2.3.2005	2.3.2009 – 1.3.2015	2.5250	200,000	–	–	(200,000)	–	–	–
2.3.2005	2.3.2010 – 1.3.2015	2.5250	200,000	–	–	(200,000)	–	–	–
10.3.2005	10.3.2006 – 9.3.2015	2.9250	1,000,000	–	–	(1,000,000)	–	–	–
10.3.2005	10.3.2007 – 9.3.2015	2.9250	1,000,000	–	–	(1,000,000)	–	–	–
23.3.2005	23.3.2006 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	200,000
23.3.2005	23.3.2007 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	200,000
23.3.2005	23.3.2008 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	200,000

30. SHARE OPTION *(Continued)*

Date of grant	Exercisable period	Exercise price	Outstanding at 1.4.2005	Granted during the year ended 31.3.2006	Exercised during the year ended 31.3.2006	Lapsed during the year ended 31.3.2006	Outstanding at 31.3.2006	Lapsed during the year ended 31.3.2007	Outstanding at 31.3.2007
		HK$							
Employees:									
23.3.2005	23.3.2009 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	200,000
23.3.2005	23.3.2010 – 22.3.2015	3.1750	200,000	–	–	–	200,000	–	200,000
1.6.2005	1.6.2006 – 30.6.2006	2.1750	–	3,133,333	–	(200,000)	2,933,333	(2,933,333)	–
1.6.2005	1.6.2007 – 30.6.2007	2.1750	–	3,133,333	–	(200,000)	2,933,333	(400,000)	2,533,333
1.6.2005	1.6.2008 – 30.6.2008	2.1750	–	3,133,334	–	(200,000)	2,933,334	(400,000)	2,533,334
1.6.2005	1.6.2009 – 30.6.2009	2.1750	–	800,000	–	(200,000)	600,000	(400,000)	200,000
1.6.2005	1.6.2010 – 30.6.2010	2.1750	–	800,000	–	(200,000)	600,000	(400,000)	200,000
			43,033,336	11,000,000	(2,533,336)	(31,600,000)	19,900,000	(8,533,333)	11,366,667
Total			269,700,004	11,000,000	(4,200,004)	(31,600,000)	244,900,000	(8,533,333)	236,366,667

In respect of the share options exercised during the year ended 31st March 2006, the share price at the dates of exercise ranged from HK$2.125 to HK$2.375.

During the year ended 31st March 2006, share options were granted on 1st June 2005. The estimated average fair values of the share options granted on that date are HK$0.330.

The Company has used the Binomial model (the "Model") with the consideration of vesting period and possible exercise pattern to value the share options granted during the year ended 31st March 2006. The Model is one of the commonly used models to estimate the fair value of the share option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

30. SHARE OPTION *(Continued)*

Details of the fair values of share options determined at the date of grant on 1st June 2005 using the Model with the inputs are as follows:

	1st June 2005
Share price	HK$2.15
Exercise price	HK$2.175
Expected volatility	70%
Expected life	2.69 years
Risk-free rate	3.090%
Expected dividend yield	0%
Exit rate	40%
Exercise multiple	1.3

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

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

31. JOINT VENTURES

The Group has the following significant interests in joint ventures:

Name of entity	Place of registration/ operations	Nominal value of registered capital	Effective percentage of interest held by the Group	Principal activities
HL 95 ("北京鴻聯九五信息產業有限公司")	PRC	RMB60,000,000	49%	Provision of telecommunications/ information value added services
CCIT ("中信國檢信息技術有限公司")	PRC	RMB60,000,000	50%	Provision of product identification, authentication, tracking system business

The following amounts are included in the Group's financial statements as a result of the proportionate consolidation of the above joint ventures:

	2007 **HK$'000**	2006 HK$'000
Current assets	**103,261**	153,450
Non-current assets	**60,330**	61,996
Current liabilities	**46,415**	64,768

	2007 **HK$'000**	2006 HK$'000
Income	**275,568**	300,817
Expenses	**296,519**	272,581
Taxation	**3,172**	7,039

During the year ended 31st March 2006, the Group incurred pre-operating expenses of HK$1,207,000 relating to the formation of CCIT and recorded as an expense in the consolidated income statement.

32. OPERATING LEASE COMMITMENTS

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

	2007	2006
	HK$'000	HK$'000
Within one year	**10,399**	11,330
In the second to fifth years inclusive	**3,282**	8,221
	13,681	19,551

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

33. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,008**	–

34. RETIREMENT BENEFITS SCHEMES

Defined contributed plans

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

The Group (including its subsidiaries and jointly controlled entities) also participates in the employees' pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

35. RELATED PARTY TRANSACTIONS

Save as disclosed above, 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 year:

	2007	2006
	HK$'000	HK$'000
System integration and software development income *(note a)*	**–**	17,714
Telecommunications/information value-added services agency fee *(note b)*	**5,206**	6,718

(a) System integration and software development services are provided by a wholly owned subsidiary of the Group, Guangdong Grand Cycle Technology Company Limited, to two jointly controlled entities, HL95 and CCIT. The services are conducted at terms as set out in the agreements entered into between the respective parties.

(b) 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% equity interest in Dongfang Customs directly and 20% equity interest in CCIT indirectly.

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under the CITIC Group which is controlled by the PRC government. Apart from the transactions with related parties disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

35. RELATED PARTY TRANSACTIONS *(Continued)*

Material transactions with other state-controlled entities are as follows:

	2007	2006
	HK$'000	HK$'000
Telecommunications/information value-added services agency fee *(note c)*	**37,459**	37,471

(c) The Group pays agency fee to China Mobile Communication Corporation, China United Telecommunications Corporation and China Network Communication Group Corporation for providing telecommunications/information value-added services through their network and receiving service charges from customers through them.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

36. LITIGATION

During the year, the Company received a claim from a former employee in the Hong Kong Labour Tribunal for damages arising from the Company's non-recognition of titles to 8,000,000 share options to subscribe for shares in the share capital of the Company in accordance with the alleged share option granted to the former employee under the share option scheme adopted by the Company dated 28th May 1998. The Company has consulted its lawyer and the lawyer has opined that the amount that can be claimed by the former employee would not exceed HK$3,133,000 and that the Company has a reasonable prospect of a successful defense. Accordingly, no provision in connection with the legal claim has been made in the consolidated financial statements.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which, excluding those explained below, are limited liability companies, at 31st March 2007 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
CITIC 21CN Telecom Company Limited	Hong Kong	HK$1,000,000	–	100%	System integration and software development
Guangdong Grand Cycle Technology Company Limited	PRC	HK$21,000,000	–	100%	System integration and software development for a term of 50 years commencing December 2002

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

38. SUBSEQUENT EVENT

On 10th May 2007, US$2,000,000 of the issued Bonds were converted into 18,460,476 shares of HK$0.01 each of the Company at a price of HK$0.84 per share.

On 4th June 2007, US$22,000,000 of the issued Bonds were converted into 179,552,420 shares of HK$0.01 each of the Company at a price of HK$0.95 per share.

FINANCIAL SUMMARY

	2007	2006	2005	2004	2003
	Year ended 31st March				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**286,057**	403,545	249,058	163,947	10,600
(Loss) profit before taxation	**(62,212)**	19,387	6,315	(5,349)	(26,974)
Taxation	**(2,353)**	(13,100)	(5,231)	(1,371)	(82)
(Loss) profit for the year	**(64,565)**	6,287	1,084	(6,720)	(27,056)
Attributable to:					
Equity holders of the Company	**(60,998)**	9,153	(1,755)	(6,006)	(27,054)
Minority interests	**(3,567)**	(2,866)	2,839	(714)	(2)
	(64,565)	6,287	1,084	(6,720)	(27,056)

	2007	2006	2005	2004	2003
	As at 31st March				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**943,737**	1,007,208	449,146	392,932	175,759
Total liabilities	**(624,830)**	(665,770)	(133,065)	(168,477)	(73,640)
	318,907	341,438	316,081	224,455	102,119
Equity attributable to equity holders of the Company	**318,240**	337,765	308,787	218,083	102,034
Minority interests	**667**	3,673	7,294	6,372	85
	318,907	341,438	316,081	224,455	102,119